

**PRESIDENT'S RENEWAL OF NORMAL TRADE
RELATIONS WITH CHINA**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
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PRESIDENT'S RENEWAL OF NORMAL TRADE RELATIONS WITH CHINA

THURSDAY, JULY 9, 1998

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

The hearing was convened, pursuant to notice, at 9:08 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, Murkowski, Mack, Moynihan, Baucus, Conrad, and Moseley-Braun.

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

The CHAIRMAN. The committee will please be in order.

First, I want to express my appreciation to both of you for being here at 9:00. It turns out we are having votes later in the morning, so it works out very well from my standpoint and I appreciate very much your cooperation.

It is a pleasure to welcome our Ranking Member and distinguished colleague, Senator Moynihan.

I was just starting to say, Pat, that the intent of our hearing today is two-fold. First, the hearing does provide an opportunity to address those issues that will shape the debate over whether to extend what we now call normal trade relations to China.

Second, and perhaps most importantly, the hearing is designed to place that annual debate in its proper context. That context is the ongoing effort to build a constructive relationship with a country that contains one-fifth of the world's population, maintains the world's largest standing army, represents our fourth largest trading partner, and a growing presence in the world economy, and one that we alternately regard as a strategic partner and strategic rival.

In my view, maintaining normal trade relations with China is in America's economic and strategic interests, and central to any responsible China policy.

Let me say a few words on the President's summit. I believe that the President's public diplomacy was a success and that it highlighted the important changes that are taking place in China.

However, I am disappointed that there were few concrete achievements that resulted from the trip, whether on trade, human rights, or non-proliferation.

My concerns, however, do not mean that the President should not have gone to China, to the contrary. While some have questioned the President's trip to China, just as some questioned whether we should extend normal trade relations with China at this time, the blunt response to both groups is that there has never been a time when it has been more important to maintain a strategic relationship with China.

China's constructive role in the Asian financial crisis, its leverage in the conflict between new nuclear powers in South Asia, as well as the strains China can create through belligerence towards Taiwan, or incursions in the South China Sea, all underscore the importance of building a constructive relationship.

The decision to renew normal trade relations is critical to that process. Let me be clear. There is a great deal of improvement that we must see, indeed, demand, from the Chinese. There, our concerns are obvious: economic and political freedom, human rights, religious freedom, and weapons proliferation. But it is precisely because of these concerns that we must remain engaged in China.

I agree with the Reverend Pat Robertson, when he said recently in *The Wall Street Journal*, that to isolate China would "close the door to the gospel and undermine the goal of moving to a faith-based democracy." Reverend Robertson's message applies with equal force to the other facets of our relationship with China.

While there is much to be done, there has been clear progress as a result of China's opening to the world, and our participation in that opening. Normal trade relations are the key to our continued dialogue with China. With that, I would like to turn to our distinguished Ranking Member for any opening remarks that he would like to make.

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

Senator MOYNIHAN. Thank you, Mr. Chairman. I want to join you in your observations, to welcome the Secretary and the Ambassador, and to make a brief historical comment.

The first American ship to clear an American harbor bound for China was the *Empress of China*, which left New York on February 22, 1784. It had 3,000 tons of ginseng, that is now the preferred aphrodisiac of the Chinese upper classes, not that artificial stuff grown in Korea, and some pelts, and some other things. She reached Canton in August and came back with a cargo of porcelain, umbrellas, and fans, and tea.

The pattern of our trading American raw materials for Chinese manufactured goods has not that much changed. To this day, we send raw materials there and they ship back manufactureds, although not necessarily of the highest end of manufacturing.

We on this committee are much concerned about this old problem of opening those markets to legitimate American exports. Fiber optics is a particularly important one. I see Ambassador Barshefsky nodding. Fiber optics is a hugely important technology developed in the United States, which they will not have, and should.

But, second, Mr. Chairman, I just think we have to grant that the world has changed a very great deal since we last discussed this subject, with the advent of nuclear forces in South Asia. We

now have a nuclear India and a nuclear Pakistan. The prospect of those weapons spreading is perhaps the most dangerous geopolitical situation we face in the world today, or I would say. The Chinese were intimately associated with the development by Pakistan of its weapons. They probably facilitated the North Korean missiles.

We now have the most dangerous of situations there in that region because neither side has the depth of weaponry that they have a second-strike capability, which has been the source of stability and strategic thinking with the Soviet Union and the United States in those days.

Further, with Pakistan in desperate shape financially, American embargoes in place, sanctions, the prospect of an Islamic bomb, as it is so described, making its way to Iran, Iraq, or other powers in the Middle East is very real, which changes the whole calculation of the century in that area.

So I hope you might talk about that, because we did not hear anything from the various communiqués about discussions with China about its involvement in the creation of a nuclear standoff in South Asia, which is far more important than trade. But trade is an aspect, and perhaps you would mention that, to the extent you feel free to do so.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan.

Due to the fact we are going to have votes at 10:00, I would like to proceed directly to the testimony of our two distinguished witnesses. We will complete that by the time of the votes, at which time we will suspend until 11:00 a.m. to hear from other witnesses. But I want to maximize the amount of time for questions.

We will hear, of course, first, from the administration on the outcome of the recent summit and the reasons for President Clinton's reauthorization of normal trade relations with China.

It is, indeed, a pleasure to welcome Secretary Albright, who was just here a few weeks ago. We appreciate very much your availability.

It is always a pleasure to have Ambassador Barshefsky, who was in China at the time of our Africa hearing, negotiating with the Chinese on accession to the WTO. But we look forward to hearing from you, Madam Secretary.

STATEMENT OF HON. MADELEINE ALBRIGHT, SECRETARY OF STATE, WASHINGTON, DC

Secretary ALBRIGHT. Thank you very much, Mr. Chairman. As you said, here I am again. I am delighted to be here. I understand, Senator Moynihan, that the tea used in the Boston Tea Party came from China.

Senator MOYNIHAN. I suppose so.

Secretary ALBRIGHT. I am very grateful to be able to be here to testify on this important matter and to have Ambassador Barshefsky with me.

The question of whether to continue Most Favored Nation, or Normal Trade Relations, with China has been debated exhaustively and repeatedly in recent years, and each year the balance of opinion has been to support its extension.

The case for doing so now is stronger than ever, for today we face a financial crisis in Asia whose repercussions continue to deepen and spread. The President's recent trip has underscored the major role that U.S.-China relations will play in determining future stability, prosperity, and peace across Asia and around the world.

There is no greater opportunity or challenge for U.S. foreign policy than to encourage China's integration as a fully responsible member of the international system, and maintaining normal trade relations reflects our commitment to this goal.

Obviously, continuing MFN does not mean we see eye to eye with the Chinese Government on every issue. As the President made clear in remarks directly addressed to and received by the Chinese people, we continue to have sharp differences on human rights and other issues.

The question we face, is how to deal with these issues in the way most likely to promote progress. The administration believes the answer is to engage directly and frankly with the Chinese, making clear our values and motives, pressing our views vigorously, but with respect for the Chinese nation.

Let me be clear, Mr. Chairman and members of the committee. Our policy toward China is not based on rosy assumptions about how Chinese policies will evolve, but we believe there are many areas where U.S. and Chinese interests overlap, and that these provide a basis for increasing cooperation between our countries and a basis for hope that the choices China makes will increasingly be the right ones.

Certainly, having spent a good deal of time with the Chinese people in recent days, I am persuaded that many of their fundamental aspirations mirror our own. Whether you live in San Francisco or Shanghai; you want to be part of a healthy and growing economy; you want to be secure from the proliferation of nuclear weapons and poison gas; you want the air to be clean and the water safe to drink; you want the authorities and the people alike to respect the rule of law; and you want to have a say in decisions that affect your life.

Today, in the People's Republic of China, a remarkable process of change is under way. Clearly that process has far to go, but the evidence suggests it has started down the right road. Certainly American's interests in Asia will be heavily influenced by China's own perception of its national interests, and by the policies it adopts to advance them.

By engaging President Jiang and other Chinese leaders in a strategic dialogue, President Clinton is doing precisely what a President of the United States should be doing. He is seeking to improve prospects for a secure, stable and prosperous Asia, while articulating American support for universal principles of freedom and human rights.

This approach is paying off, not through spectacular overnight gains, but through steady progress in a variety of areas. The control of deadly arms is a solid example. As a result of our strategic dialogue, the People's Republic of China is increasingly moving from being part of the proliferation problem to being part of the solution.

During the past few years, China has joined the Nuclear Non-Proliferation Treaty and supported its indefinite extension; ceased testing its nuclear weapons and signed the Comprehensive Test Ban Treaty; became an original party to the Chemical Weapons Convention; agreed not to assist any unsafeguarded nuclear facilities; and to cut off all nuclear cooperation with Iran; and adopted comprehensive controls on nuclear and dual-use exports.

In recent weeks, China has played a significant and helpful role in trying to move India and Pakistan back from the brink of the nuclear arms race. The summit brought further progress.

In Beijing, we reached agreement with the Chinese not to target one another with nuclear missiles, a step which reduces the risk of an accidental launch. The Chinese agreed to actively study membership in the Missile Technology Control Regime.

Regional security is another matter on which U.S. dialogue with Beijing has enhanced cooperation and fostered progress. For example, the People's Republic of China has consistently supported the agreed framework that has frozen North Korea's dangerous nuclear weapons program and has urged the north to continue complying with it. The PRC is cooperating with us in the four-party talks that seek to bring lasting peace to the Korean peninsula.

It would harm America's national security interests, Mr. Chairman, to jeopardize this cooperation by suddenly terminating normal trade relations. Needless to say, it would harm our economic interests as well.

Last year, our direct goods exports to China totaled almost \$13 billion, up nearly 400 percent over the past decade, and we exported \$15 billion more to Hong Kong, much of it destined for the China market.

Taken together, our sales to China and Hong Kong support some 400,000 U.S. jobs that pay, on the average, 13 percent more than non-export-related jobs. Revoking MFN would invite retaliation and would put these good American jobs and incomes directly at risk.

Moreover, such a decision would less the purchasing power of every American paycheck. For even assuming changed trade flows, it would force American consumers to pay more for goods subject to increased tariffs, and that, in turn, would add to inflationary pressures on our economy.

MFN revocation could come back to haunt us even more substantially by destabilizing currency markets in the Asia Pacific. China has played a constructive role in promoting financial stability in the region through direct assistance, multilateral cooperation, and participation in the international financial institutions.

MFN revocation would set back China's own daunting program of market reforms and thus make it harder for China to maintain its contribution to Asian stability. And restricting Chinese exports to the U.S. might well cause China to devalue, with potentially dire consequences for its neighbors, for China's own stability, and for markets worldwide, including our own.

One certain victim of MFN withdrawal would be Hong Kong. That port handles almost 50 percent of U.S.-China trade, so it is highly dependent on normal relations. While the reversion of au-

thority to China, for the most part, has gone smoothly, Hong Kong has not been immune from the effects of the Asian economic crisis.

Hong Kong authorities estimate that losing MFN would reduce its trade by up to \$34 billion and its income by \$4.5 billion. Any retaliation by China would amplify this damage.

That is why Hong Kong officials, including democratic leader Martin Lee, are united in support of MFN renewal. Now, only a year after reversion, is no time to sabotage Hong Kong's economy, ignore its wishes, undermine its confidence, and weaken its autonomy by revoking MFN.

Mr. Chairman, I will be frank in saying that, although our economic ties with China have grown, the size of our trade deficit is deeply troubling. It is too big, it is moving in the wrong direction, and it cannot keep growing indefinitely. I think my companion here, Ambassador Barshefsky, will describe that more fully.

One thing is already clear, however. Revoking MFN is not the way to open up China's markets. On the contrary, it would squander the progress we have achieved and it would give a huge edge to our major competitors in Europe and Asia, all of whom do have normal trade relations with China.

The U.S.-China dialogue also extends to the environment and other global issues. This is important, because China's demand for energy will more than double in the next decade. It is already the second-largest emitter of greenhouse gases, the leading producer of ozone-depleting substances, and home to 5 of the world's 10 most polluted cities. Clearly, China is key to addressing global and environmental problems.

That is why we were encouraged by Beijing's decision last year to eliminate the use of leaded gas. And that is why we are now increasing our cooperation on clean energy using American technology, working with the Chinese on a nationwide air quality monitoring network, and helping them find ways to finance economic growth without wasteful energy habits. It was very much a subject of the President's discussions with the leaders there.

With regard to Taiwan and the aspirations and interests of its people, I am convinced that both our dialogue with Beijing and the President's trip will have a positive impact. This is because a People's Republic of China that is hostile and suspicious of outside influences would be more, not less, difficult for Taiwan to deal with.

A PRC that continues to be drawn into the international community, as it was by the President's trip and as it would be by renewal of Normal Trading Status, is one whose interest and identity will be more, not less, consonant with those of Taiwan.

In light of these truths, and Taiwan's burgeoning trade and investment with the PRC, renewal of MFN is in Taiwan's interest.

Obviously, Mr. Chairman, we remain very dissatisfied with the state of human rights and religious freedom in China. As I have said many times, engagement is not endorsement.

But we also note that Wang Dan, Wei Jingsheng, and other prominent political prisoners have been released on medical parole or otherwise permitted to leave. China has signed the UN Covenant on Economic and Social Rights, and has announced it will sign the UN Covenant on Civil and Political Rights in the fall.

Chinese officials have hosted visits by a delegation of U.S. religious leaders, as well as the UN Working Group on Arbitrary Detention. And the Chinese have substantially expanded their cooperation with us on the rule of law.

During the summit, President Clinton spoke out more openly and forcefully about human rights in China than any foreign leader has ever done in that country, and he did so not in one isolated instance, but in a series of very public appearances.

The President's trip exposed hundreds of millions of Chinese to America's conviction that human rights are universal and that human freedom is indispensable to any country's effort to compete in the world economy.

The summit turned the international spotlight on the issue of religious freedom as well. The President spoke at the largest Protestant church in Beijing. In Shanghai, I had a fascinating discussion about government regulation of religion with Protestant, Catholic, Muslim, Taoist and Buddhist clergy.

Here and around the world, prominent religious leaders have hailed the trip. The Philippines' Cardinal Jaime Sin, for example, told our ambassador in Manila that he believed the trip could prove to be a turning point for religion in China.

President Clinton also made protection of Tibet's unique religious, cultural and linguistic heritage a high priority. In his joint press conference in Beijing, he suggested face-to-face talks between President Jiang and the Dalai Lama.

President Jiang responded in a more open manner than he had in the past, and the Dalai Lama applauded both President Jiang's reaction and the President's support, which he said "can be enormously helpful."

Mr. Chairman, I have been a student of change in communist societies all my life, and I truly believe China has begun to change. Once the door opens to the kind of honest public debate about history and politics that the Chinese people began to experience two weeks ago, it becomes very hard for any government to seal it shut again.

Once people see the power of the mass media to improve their lives by providing information and exposing wrongdoing, it becomes very hard to close their eyes again. And once people understand that another, freer way of life is really possible, that it exists elsewhere and that it works, it becomes very hard to deny it to them forever.

It would be arrogant to suggest that our engagement alone can give rise to democracy in China; only the Chinese people can achieve that. But engagement can contribute to an environment in which the Chinese people have more access to information, more contact with the democratic world, and less resistance from their government to outside influences and ideas.

Cutting off U.S. engagement would do nothing to encourage the forces of change in China. It would not free a single prisoner, open a single church, or expose a single Chinese citizen to a new idea. It might make some people feel good, but it would not advance either our interests or our principles. It would not be a productive approach.

So, Mr. Chairman, MFN embodies America's commitment to open markets. As you well know, despite its name, it is the standard tariff treatment we extend to almost all nations. We want very much to have your support in extending MFN because it will extend our influence, fortify our strategic dialogue, and make further progress more likely.

Thank you, Mr. Chairman. I would be happy to answer questions after Ambassador Barshefsky, or however you wish to do it.

The CHAIRMAN. Well, thank you very much, Madam Secretary.

I think we will proceed with the Ambassador, then we will ask questions of the two of you.

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

The CHAIRMAN. Ambassador Barshefsky?

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

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman and members of the committee. It is a great pleasure to be here. I am sorry that I missed the Africa hearing, but, as you pointed out, I was in China at the time.

China will play, as the Secretary has said, a crucial role in the major international issues our country must address in the decades to come. These include security in Korea, nuclear tests in South Asia, proliferation of advanced weapons, crime and drugs, climate change, human rights, religious freedom, and trade.

The administration has, thus, embarked upon a policy of comprehensive engagement with China. That does not mean endorsement of China's policies, but, instead, it is the best way to further our interests across this broad range of issues, finding mutual interests where possible, and addressing the differences in a forthright way.

Fundamental to engagement is what we have called Most Favored Nation status and, with the committee's leadership, Mr. Chairman, are renaming Normal Trade Relations.

Normal Trade Relations is the same tariff status we grant nearly all our trade partners around the world. It is the foundation of our commercial relationship with China. Renewing it is in our National economic interest. We now export about \$13 billion to China. China is our sixth largest agricultural market. We export another \$15 billion to Hong Kong. Exports to China and Hong Kong support over 400,000 American jobs.

Normal trade relations are also in our broader strategic interest. One example is China's response to the Asian financial crisis. Trade has given China a stake in economic stability beyond its own borders. This has led China, for reasons of its own, to contribute to the IMF recovery packages for Thailand and Indonesia, and to resist pressure to devalue its currency.

By contrast, to revoke normal trade relations would be to sever our economic relationship and, in turn, our broader strategic and political relationship. This would have consequences for all facets of our relations with China.

Ending normal trade relations would raise tariffs on Chinese products from less than 6 percent to a trade-weighted average of

44 percent. China would likely retaliate against U.S. exports and derail our trade negotiations. This would threaten the jobs of manufacturing workers, the incomes of farmers, and the export prospects of thousands of American businesses, as well as increase inflationary pressure here.

It would also badly damage Hong Kong at the worst possible time. Up to three-quarters of U.S.-China trade goes through Hong Kong's port. Hong Kong authorities estimate that ending normal trade relations would slash trade volume by \$44 billion and income by \$4.5 billion.

In the past months, Hong Kong's unemployment rate has hit a 15-year high, and the Asian crisis has caused serious economic contraction in Hong Kong in the first quarter.

Ending normal trade relations with China would, thus, have a devastating effect at a time when the Hong Kong economy is already suffering, and just after it has held its first election as the Hong Kong special administrative region. That is why all leading Hong Kong figures, from Chief Executive C.H. Tung, to Chief Civil Service Secretary Anson Chan, and Democratic Party leader Martin Lee, support normal trade relations.

Ending normal trade relations would worsen the Asian financial crisis, introducing new financial and economic instability in Asia with unpredictable and negative effects throughout the region and on America.

Altogether, to renew normal trade relations is to protect fundamental U.S. interests and values. With this foundation, let me address, briefly, our trade agenda.

Significant problems persist in our trade relationship with China. Our \$75 billion in two-way trade is highly unbalanced. Last year, we exported about \$13 billion to China, China exported about \$62 billion of goods and services to the U.S.

China restricts imports through structural impediments, like a lack of transparency and restrictions on trading rights. Formal trade barriers, like high tariffs, and non-tariff measures, exist.

We address these barriers using all of the tools available to us, including our own trade laws, bilateral and regional talks, and multilateral fora. These efforts advance, first and foremost, our economic trade interests, but they also serve our wider objectives of advancing the rule of law in China and international standards.

Let me offer two specific examples. The first, is a bilateral issue: intellectual property rights. Not long ago, China's intellectual property laws were weak and piracy widespread, particularly China's export of pirated products to third countries. China ranked as the number one pirate exporter in the world.

Two sets of negotiations, in which we threatened retaliation twice and invoked it once, achieved landmark agreements in 1995 and 1996. Under these agreements, China significantly reduced the scale of piracy and began to establish a modern legal infrastructure for the protection of intellectual property rights.

Since then, China has closed over 64 CD and CD-ROM production lines, arrested more than 800 people for IPR piracy, conducted countless raids, seized 14 million pirated CDs and VCDs in the last year alone, as well as destroying CD masters molds and equipment.

The export of pirated CDs, CD-ROM, and VCDs from China has been largely curbed. But the work is not done. Pirated retail CDs, VCDs, and CD-ROM remain available in many Chinese cities.

Illegal use of software by Chinese Government ministries is a problem and we have serious concerns on trademark, as well as certain areas of market access, but our engagement on this issue has dramatically improved the situation and is essential to complete the work.

The second example, is China's accession to the World Trade Organization. The WTO accession reflects specific U.S. trade interests in many areas, but also the basic principles of open and transparent markets, the rule of law, and the peaceful settlement of disputes. Thus, the United States welcomes and supports China's application to join the WTO, but accession must be on commercially meaningful terms.

As you have observed, Mr. Chairman and members of the committee, WTO negotiations with China have proceeded with fits and starts, but the trajectory of those negotiations, particularly over the last 2 years, has been positive.

During this period, China has made commitments on a number of critical issues to the rules of the WTO. For example, China has committed to WTO obligations related to transparency, to judicial review of administrative decisions, and non-discrimination. China has also agreed to phase in trading rights over 3 years and to implement the trade-related intellectual property rights obligations upon accession.

Most recently, in the lead-up to the summit, negotiations did progress further. We made some headway on critically important issues of distribution, tariffs, non-tariff measures, Customs valuation, and professional services.

In addition, for the first time China presented an offer on basic telecommunication services and an offer on financial services that included securities. Gaps here remain significant and little progress was made on agriculture. Much work remains ahead on each of these areas. We also have more to do on WTO rules, which address many of the rights and obligations in a broad way.

We intend to take as long as necessary to get this right, beginning when our negotiators meet again in two weeks to continue the talks held prior to the President's visit.

That is a bit of background. But I would say, to summarize on WTO, there are three points. First, we are asking nothing of China that China cannot do or that other countries throughout the world have not done.

Second, there are no shortcuts. Neither we nor any WTO member can afford a political accession, for China or any other country, including Russia.

Third, China would do well to speed up its decision making on WTO because, as time passes, a commercially meaningful offer will require more than it does today.

China first indicated an interest in what was then the GATT in 1986. By 1994, through the Uruguay Round, we had completed a new round, we had deepened the coverage of agriculture, subsidies, government procurement, investment, intellectual property, tariffs were bound, and dispute settlements became binding. By the begin-

ning of this year, the WTO advanced further through the Information Technology Agreement, the Global Telecom Agreement, the Global Financial Services Agreement. Next year, we begin negotiations on the WTO's built-in agenda covering agriculture, services, intellectual property, government procurement, and other issues. In the future lie yet further talks. The long China delays a commercially meaningful offer, the more comprehensive that offer must become. At the same time, the status quo is not sustainable.

Mr. Chairman, in closing, let me make one final point. Trade policy, in its narrowest sense, is about access and fairness. But its effects extend beyond commerce to fundamental national interests, values, and ideals. China was once an almost entirely closed society, hostile to the international economic order.

Today, we see China applying for WTO membership, we see American business operating widely in China, the share of the state in China's economy has fallen, the rule of law is advancing, and China is more open to the world than at any time since World War II. These trends are not only good for China, they are good for America. To end normal trade relations would be to threaten them all.

So, again, the administration strongly supports normal trade relations with China and looks forward to working closely with the committee to ensure its renewal this year. Thank you, Mr. Chairman and members of the committee. I look forward to answering your questions.

The CHAIRMAN. Thank you, Ambassador.

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

The CHAIRMAN. Madam Secretary, as I said in the beginning, I think there was great progress made in public diplomacy, but there has been some critical comment about the visit to China, that there was no concrete progress made in any of the areas of trade, human rights, non-proliferation. I would appreciate your comments on that.

Let me, as part of this two-part question, point out that, as the administration has often said, engagement is not a policy, but rather a tactic. As you engage China, what are your top policy objectives, in rough order of importance?

Secretary ALBRIGHT. Let me take the second part of your question, first, because it will set a context for what we did accomplish. First of all, you, yourself, Mr. Chairman, said about the importance of China in terms of its population size, obviously, and Senator Moynihan made the point of its importance to strategic stability in the region, and we see more and more that engagement with China is important and necessary for our National interests because of its increasing relevance in global organizations, and generally.

But, specifically, our agenda is in the non-proliferation area, where we believe that having China be more cooperative does, in fact, help our general—non-proliferation, as you know, is one of our highest national security agendas. China has, in fact, I think, put itself in a position to be more and more cooperative on non-proliferation, and I will go through on some of the substantive things we have accomplished.

I think it is also part of our agenda to have China be more helpful in terms of the strategic relationships in the region. They have, in fact, as I stated in my testimony, been helpful in terms of the Korean peninsula as the four-party talks, and in supporting the agreed framework.

They have also been very helpful in terms of, now, the explosions in India and Pakistan, being part leaders within the P5, Permanent Five, members of the Security Council with us in trying to get both parties to sign the CTBT, join the Missile Cut-Off Treaty, and generally be more responsive.

They have also been helpful in terms of the Asian financial crisis. I think having them be a part of a strategic dialogue is very important to us.

As I also mentioned, one of our priorities is to do something about climate change and the whole environmental situation. It is essential that China be a part of that discussion as they are about to become the biggest part of the problem. We are the biggest part of the problem, they are about to become the biggest part of the problem. Therefore, having them engaged in that is very important.

Human rights is absolutely essential and central to our foreign policy and we will never have a completely normal relationship with China until they have a better human rights policy. The President made that very clear. Those are generally our major agenda items with China.

Let me just say that I do think that we did make progress in the non-proliferation area during this summit. We did manage to get enhanced controls with them. They are now much more active in terms of controlling dual-use technology. The non-targeting, I think, is something that cannot just be said was cosmetic. It certainly is something that is important in terms of accidental launch and something that we think is an accomplishment.

In terms of missiles, we welcomed China's statement that it attaches importance to issues related to the Missile Technology Control Regime, and that it is now actively studying joining that. We will continue consultations with them on the MTCR issues later this year.

We also strengthened our controls on dual-use chemicals and related production equipment, and on biological weapons. President Clinton and President Jiang issued a joint statement calling for strengthening of the Biological Weapons Convention. Also, on anti-personnel land mines, they issued a joint statement affirming their commitment to ending exports.

So I think that we have made progress. We need to make more progress on non-proliferation. But, generally, again, it is a positive trajectory with the Chinese.

Ambassador BARSHEFSKY. Mr. Chairman, may I just add that on the trade side, obviously, the priority has been to achieve greater market access in China. I think we have made some gains in that respect. We have seen our exports pick up considerably, particularly the last year or year and a half after a period of lull. We do see, indeed, that China's imports into the U.S., the rate of increase, has slowed considerably this year over last.

In the broader sense, economically, of course, what we want to see in China is a development of the rule of law. We want to see

predictability. We would like to see greater transparency and due process.

The CHAIRMAN. Do we see any progress being made during this?

Ambassador BARSHEFSKY. Well, I think that intellectual property rights protection, generally, in China, exemplifies not only this question of market access, but also the establishment of a rule of law.

China, under our agreements, has entirely restructured the manner in which it enforces intellectual property rights, from the ministry level all the way through the police and procuratorate level, that is, the prosecutorial level, as well as introducing greater transparency in its law courts.

The agreement has really created a rather profound change of a more enduring legal nature in China than one might expect at first blush, thinking of it only as a market access issue. I think that is an area where we continue to make increasing progress.

The CHAIRMAN. Let me go back to you, Madam Secretary. We are all very much concerned about the Asian crisis. I wonder what discussions there were in Beijing about addressing that problem. Was any kind of commitment, for example, made in respect to devaluing the RMB?

Secretary ALBRIGHT. Well, we did discuss this issue, and especially with Prime Minister Juarnji, who has been very concerned with it. They said that they would not devalue. They did not threaten devaluation. Obviously, everyone is very concerned about the devaluation of the yen, but they specifically did not threaten devaluation as a way of dealing with the devaluation of the yen.

They are concerned about the effect of the Asian financial crisis, generally, and are, I believe, looking at it in the way that we are in terms of being helpful by not devaluing.

The CHAIRMAN. One of the reasons for Most Favored Nation, or Normal Trade Relations.

Secretary ALBRIGHT. NTR.

The CHAIRMAN. Yes, Madam Secretary.

Senator MOYNIHAN. Madam Secretary, we are going to vote in about 40 minutes to make it the law that you say normal trade relations from here on out. No more of the 17th century French formulations.

Secretary ALBRIGHT. Here! Here!

The CHAIRMAN. But let me go back. Many people have suggested engagement is important through trade because it will help develop better relations with China. Can we link any specific improvements in China's behavior, either in our bilateral relations or internationally in the continued authorization of normal trade relations with China?

Secretary ALBRIGHT. I believe, Mr. Chairman, that we specifically can see an improvement in terms of opening up China, because we are there in terms of our companies being there, our American citizens being there, and generally opening the system up.

Ambassador Barshefsky mentioned the rule of law. I think that, not only in a commercial way, but also in a way that is a systemic change in terms of abilities for human rights, the rule of law has come—it is very hard to figure out what has come first, whether

the trade issues or our pushing on human rights, but they certainly go together. I have spent a lot of time on the rule of law initiative. We can see judges being retrained. I met with legal aid groups that are helping individual citizens to assert their rights on criminal issues, as well as civil issues. So I think, generally, what we are seeing is an opening up the system.

For instance, in Shanghai, in the library that is set up there that is about as modern as any library I have seen—the Library of Congress might want to take a look at their shelving activities that are not as good as the ones that are in the Shanghai library—where they had a sign above the forum that the President was leading which said, “Knowledge is Power.”

I think that, by opening up the system as a result of our trade initiatives, we are opening up the entire Chinese system to change. What I think our motto is, is a changing relationship with a changing China.

The CHAIRMAN. I will ask one further question of you, Ambassador, then I will turn it over to you, Senator Moynihan.

Can you explain why the President, in his news conference 2 days ago, backed away from his support for fast-track authority?

Ambassador BARSHEFSKY. Mr. Chairman, I do not think, the President has in any way backtracked on his support of fast-track authority. He has been quite clear that he would like this authority and he is completely mystified as to why he does not have this authority, including from his own party.

What he was simply saying, is the following, that we are not—

The CHAIRMAN. Let me ask you this question. Do you think it is possible to get fast track without very active support and leadership on the part of the administration?

Ambassador BARSHEFSKY. I think that the administration has to show leadership. I think it has shown leadership. But the administration does not intend to put a fast-track bill up for sport. If the bill comes up, it will come up because we have the votes. If the votes are not there now, we do not intend to proceed. That was his message. That is, that when that bill comes up, we want it to come up with the requisite votes.

The CHAIRMAN. Well, it seems to me if we are going to make any progress—

Senator Moynihan?

Ambassador BARSHEFSKY. I see a look of mystification.

Senator MOYNIHAN. Up here, if you say we will not move this issue unless we have the votes, you may be sure that you will not. I mean, will you fight for fast track?

Ambassador BARSHEFSKY. We have been, and we continue to consult, particularly on the House side, on the issue.

Senator MOYNIHAN. Ambassador, that is not our impression. We are ready to go. This committee voted unanimously.

The CHAIRMAN. Absolutely.

Senator MOYNIHAN. We voted unanimously.

Senator GRASSLEY. And we said exactly the same thing June of 1997.

Senator MOYNIHAN. Yes, sir.

The CHAIRMAN. And nothing will be accomplished without very, very active leadership on the part of the administration. I do not

think we can sit back and let nothing happen in the next year or two.

Ambassador BARSHEFSKY. I agree with you on that.

Senator MOYNIHAN. We have seen on your watch, Ambassador, but not your fault, a free trade, opening trade policy which began in 1934, unbroken through wars, depressions, Republican and Democratic Congresses and Presidents. It was stopped dead on the House side by Democrats. That is a great legacy to leave and say, well, there you are. I hope you are not, because that will be what you will be remembered for, not greenhouse gases over Shanghai.

I would just like to ask one question, without in any way wishing to be argumentative. Madam Secretary, you said, "In recent weeks China has played a significant and helpful role in trying to move India and Pakistan back from the brink of a nuclear arms race." Are we bringing them back from the brink of nuclear war? That, seems to me, to be the issue.

But surely you would agree, but you do not say so, you will know more than this committee, than this Senator. China played a significant role in moving Pakistan to the situation where it is now, a nuclear power, did it not?

Secretary ALBRIGHT. Senator, I think that no one would deny that, in the 1980's, China did contribute to Pakistan's nuclear program. We sanctioned various entities as a result of that, as did previous administrations.

Senator MOYNIHAN. We sanctioned Pakistan, not China.

Secretary ALBRIGHT. China, also. There were some Chinese companies that were.

Senator MOYNIHAN. Some Chinese companies.

Secretary ALBRIGHT. Yes.

Senator MOYNIHAN. All right.

Secretary ALBRIGHT. But what I was saying, is basically I think we are seeing progress, generally, in the way that China is becoming a part of various non-proliferation regimes and we see that as a positive trend.

Also, specifically, as far as the India-Pakistan explosions, they have seen, as we have, the fact that this is highly destabilizing to the region. When I asked that we get the Permanent Five together in Geneva immediately after those explosions, the Chinese happened to be the coordinators for that month and they were extremely helpful.

They were very helpful in issuing communiques on that, and also backing our policy in terms of getting them to sign the CTBT, and to work on dealing with the core of problems between those two countries, Kashmir being one of the basic ones.

So I think that, while no one denies that they were not good citizens in terms of their proliferation activities earlier, they are consistently moving within the proper channels to become better members of proliferation regimes.

Senator MOYNIHAN. I would simply urge, and I thank you for a very open response, but from the point of view of India, it looks to them as if the United States and China have set up a hegemonic regime and dividing the sphere pretty much between the two, and that is a dangerous situation.

Secretary ALBRIGHT. I think, Senator, no one knows more about India than you do, and you and I have spoken about this. I do think that the tragedy of India is that it has taken up a policy of saying that it wanted to become a nuclear weapons state. I do not think that one can blame the Chinese or us for that.

I do think that India thought that it could gain in stature and security by detonating, and I believe that they have gained neither. There are many foreign policy issues that can be walked back, but this is not one of them. We want very much now to have both India and Pakistan join the CTBT and take active steps to come within regimes that would allow us to have a different relationship.

Senator MOYNIHAN. And to watch the possible migration of a nuclear weapon into the Middle East.

Secretary ALBRIGHT. Yes. Though I have to say, Senator, they have made quite clear, the Pakistanis, that they have no intention of sharing any of that technology, and we will be watching that very carefully.

Senator MOYNIHAN. We know your formidable reputation, Madam Secretary. Just because a Pakistani general tells you something, it ain't necessarily so.

Secretary ALBRIGHT. I agree with that. We will be pressing on that issue, I can assure you.

Senator MOYNIHAN. Thank you, Madam.

The CHAIRMAN. Senator Mack.

Senator MACK. Thank you, Mr. Chairman. I think I want to pick up on a couple of points that have already been discussed, just clarifying. In your response to Senator Moynihan, you said in the 1980's. Is it the administration's position that China has not been engaged in any proliferation activities in the 1990's?

Secretary ALBRIGHT. We are very concerned about various activities and are looking at them very closely in terms of missiles. We have made no determination on that. No, we are not saying that we are not concerned about their activities. What I was saying is, they have improved their behavior markedly.

Senator MACK. They have improved. But you are not prepared to say that they have not been engaged in those activities.

Secretary ALBRIGHT. Well, they have said that they have committed themselves not to assisting unsafeguarded nuclear facilities, and they have lived up to that since 1994.

Senator MACK. I am not sure we are talking about the same thing here.

Secretary ALBRIGHT. Well, what are you talking about?

Senator MACK. I am talking about nuclear proliferation and missile technology proliferation.

Secretary ALBRIGHT. We have been concerned about missile technology proliferation. We are very carefully reviewing that issue and we have not yet made a determination. We are concerned about the issue and have discussed it with them.

Senator MACK. Again, either you said, or it was implied, in your statement or comments that, in essence, the destabilization that is taking place in South Asia is a result of India, or India and Pakistan.

I think that the point that Senator Moynihan is making, at least I would carry it maybe a step further, is that China's proliferation

of weapons to Pakistan, in fact, is the reason for the destabilization that is taking place.

I find it troubling that we seem to put more trust in the hands of the Chinese with respect to nuclear weapons as opposed to India, which is the world's largest democracy and recently held, I guess, the largest open and free and election that has taken place in the world.

It seems to me that it is fairly evident that India has responded to the circumstances as they see them today, and I suspect that there are many people who view, both in India and in the United States, that the U.S. foreign policy with respect to China is that we are falling all over ourselves to try to engage in a relationship with China without concern for what the effects of those policies might be on other Asian nations.

For example, the President chose not to stop in Japan. I know that you visited Japan at that same period of time. But there was not a statement while you were there—at least, I am not aware of it—that the U.S.-Japan relationship is our most important bilateral relationship. I am sure the Japanese were looking to hear that from you.

My point here is, I think that there are some very significant consequences to a drive that seems to be very, very focused on the relationship with China without concern for what impact that might have on the rest of the region. That is without even getting into the issues of trade. Both of you mentioned trade. Trade today, we see, what \$13 billion in sales and \$62 billion in purchases.

I mean, there is going to be a moment in which these trade deficits between China and the United States, Japan and the United States, there is going to be an explosion politically in this country at some point with respect to those trade deficits.

With respect to human rights, the comment was made that there is improvement because some well-known dissidents have been released from prison. There is another way of looking at that: they were expelled from their country. That is not an embracing of democracy and freedom, as I see it.

With respect to the missile technology, I remember Secretary Baker coming back from a trip to China a number of years ago making the same claim, about how the Chinese are moving forward with respect to missile technology. So I must say to both of you, it has not been my position that we should disengage with China. I think we should be engaged with China. But I think, in a sense, we are having a false debate here. We do not have the votes in the Congress to deny Most Favored Nation status, yet we are going to spend all of our energy debating on this point.

The point that we ought to be debating on is, how should we respond to China with respect to human rights violations, to religious freedom issues? There have been reports, for example, having to do with harvesting of body parts. I spoke with Harry Wu about that. I saw the presentation of that issue on television, a very dramatic show. Then I listened to President Jiang's responses. Frankly, they sounded very much like the responses that we used to get from the former Soviet Union when we raised issues with them.

So I find this discussion, frankly, rather strange, because we do not have the votes to deny Most Favored Nation status, and that

is what it seems like we are going to get focused on. We ought to be trying to figure out a dialogue that is on a totally different basis. I would hope that we would have an opportunity to do that in this committee, and I thank you, Mr. Chairman.

Secretary ALBRIGHT. Senator, I think you have raised very important questions. I agree with you that we should, in fact, be having a dialogue about our relationship with China. I believe that it would be irresponsible for all of us not to have a multifaceted relationship with China at this point.

As I stated earlier to the Chairman, I think that we need to understand the size and influence of China and to try to engage it so that it becomes a responsible member of the international community.

I do not think we should make any excuses for China in areas where it has failed to meet the standards that we believe are appropriate. I think that is the reason to engage with them.

In discussions that I have had with my counterparts, and certainly in the discussions that President Clinton had while in China, I can assure you that frankness was the hallmark, whether publicly or privately, and that the best way to achieve the results on the issues that you are talking about is, in fact, to have that kind of a dialogue.

But the thing that I think we have to guard against, is to have a static view of China and to put it into the adversary category, because I think China is a changing China. Our best bet is to encourage the forces of change in China, while looking for areas where we can cooperate, and making clear areas where we disagree.

Where I disagree with you, though, is basically in your saying that we have not paid attention to other relationships or that we are taking our China relationship at the expense of others.

First of all, I think the problems between India and Pakistan actually, sadly, go back to the partition in 1947. I always am embarrassed to point out how much of my life reflects the 20th century, but I grew up with the Kashmir problem.

When I went to the UN for this P5 meeting, I recall the fact that the first time I had been to those buildings at the UN was with my father in 1948, when he was named as the Czechoslovak representative to the Commission on India and Pakistan to deal with Kashmir.

So, I have spent my entire life looking at that issue, and that is the basic problem between those two countries, as well as various questions to do with partition.

We are not denying that China did play a role in terms of some of the Pakistan abilities to have a nuclear program. But India, I have to tell you, again, from my dealings at the UN, had a completely different approach to the Nuclear Non-Proliferation Treaty, and elected a party, a nationalistic kind of party, whose main program was to develop a nuclear weapon.

So I do not think that you can blame our relationship with the Chinese on this. India has not been neglected. We have sent a number of cabinet officials there, I was there, the President was planning to go. So, it is a complex issue in that regard.

On Japan, Senator, I stated very clearly when I was there that our relationship with Japan is the cornerstone of our security relationships in the region, and I believe that the Japanese were very happy with my visit and what I said there. Prime Minister Hashimoto is coming to the United States for a state visit in a couple of weeks.

So, you have raised many issues. I agree completely that we need to have a large discussion about our relationship with China, because I think it is one of the basic issues that we are going to be dealing with in the 21st century. But it is essential that, in having that discussion, we do not see the China of the 1950's, 1960's, 1970's, or even the 1980's, but the China of the 1990's and of the 21st century.

Senator MACK. If I may just make one comment.

The CHAIRMAN. Well, we are running out of time.

Senator MACK. Just one comment. I will not allow this discussion that we have had between the two of us to end on a note that tries to imply that somehow or another I am looking at China as the China of the 1950's, 1960's, and 1970's. I do not. I visited China last year. China is making dramatic changes. But making that statement to somehow or another try to push me over into the corner and say that I am not being thoughtful about this, is something I just have to reject out of hand.

Secretary ALBRIGHT. If that is the implication, I did not mean that. I meant that if we have such a discussion, that those who are engaged in it, because there are those—not you, sir—that are viewing China in a static way.

Now, you raised many issues, and we should talk about them, the human rights issues, the organ harvesting, all those issues. I think that we obviously do not have time to do it today, but I would welcome having a broad discussion about the direction we ought to be having with China.

It is the biggest issue that we have on our hands at the moment. We spend a lot of time on U.S.-Russia issues. Those are also essential, but I think we need to have a discussion on China. I agree completely, and I do not mean to put you into the static category.

The CHAIRMAN. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman. I, too, want to welcome our two ambassadors this morning. I want to restate my support for normal trade relations. I think it is interesting to go back, oh, 18 months ago or thereabouts.

There was consideration that we were using the terminology "most favored nation status" toward China for a 2-year time frame, or there was even talk of a permanent MFN. That is not the case today, but I think we have to run with what we have, and that is basically for a 1-year extension.

The reason I say that, there are still several things that bear, I think, a significant concern. Among them are the Lorall Hughes alleged satellite technology transfer to China that is still unanswered, the campaign issues involving the Chinese Government, allegedly, or the Chinese military. Until these and other issues, some of which have been addressed today, human rights, get satisfactorily addressed in the minds of many of us, why, I think we are going to have to go along with what we have got. But I think that

the points that have been made by both of you relative to the realization that denying China this Normal Trade Relations status hurts the people we really want to help. It hurts the Chinese people, it hurts our friends in Hong Kong, our allies in Taiwan, and certainly our U.S. competitiveness. I do not have a problem with that.

But I do have problems with some reports, Madam Secretary. One, is I remain very concerned about what President Clinton allegedly said regarding Taiwan. I understand that the administration does not view this as a policy change, but there are a lot of people out there that do.

We have always used the term peaceful resolution, and never used the term peaceful reunification, yet that is what the President said at the Beijing University. The three no's disturbed me, because the implication is significant. No support for Taiwanese independence. That sends a signal that the U.S. will not support that self-initiate independence. No support for one Taiwan, one China. Well, perhaps I can live with that.

No support for Taiwan membership in international organizations such as the UN. I think you saw the clippings the other day in the Washington Post, by Sherwood Brown, "Don't Chinese Children Count?"

This is the flu epidemic, where literally hundreds of children in Taiwan are dying of this flu and the World Health Organization—because Taiwan does not have nation status—is forbidden from providing assistance. This is not our traditional open assistance type of generosity that this country is noted for.

I would like you to touch on why you see this as not a change of policy when, to many of us, this appears to be going to extreme measures to make that fine line more definitive and appease the Chinese point of view. So, that is my first question.

My second question, since we are limited in time, is you made a good deal of reference to energy, clean air, yet I note a lack of the administration's comment towards nuclear power as an alternative to what China is doing, and that is basically electrifying China. Nuclear plays a major role.

The Chinese have ordered eight nuclear reactors, two from the Canadians, two from the French, two from the Russians, and they have two that they are building themselves, indigenous reactors. The U.S. is out of that loop completely, in my opinion, because the administration lacks commitment to recognize the role of nuclear energy as far as providing a reduction of emissions.

We have also seen a lack of support for the Three Gorges Dams. That is 18,000 megawatts. It replaces, what, 36, 500 megawatt coal-fired plants. The Ex-Im Bank will go in and finance coal-fired plants in China, but not a hydroelectric plant that will contribute immeasurably. So I think there is a bit of an inconsistency here.

Last of all, the Chinese import tariffs. I am getting very local now, because I am talking about Alaska canned salmon. To give you some idea, the tariff is 90 percent without MFN, and 45 percent with normal trade relations. So, here is just a complete shot at something that is very meaningful to us.

I have laid out three general concerns, Taiwan, energy, and salmon, and I wonder if you could wind that up in 30 seconds or less. [Laughter.]

Secretary ALBRIGHT. Sure. Let me just say on the Taiwan issue, that I think that there is no doubt in my mind that the President was reiterating our longstanding policy vis-a-vis Taiwan.

The United States, I think, has made very clear across the board since the Shanghai communique that we have a unique relationship with Taiwan, that we have had a one-China policy. We have made very clear that we are a friend of Taiwan. I think that the administration has a very good record in this.

When we came into office, there was a Taiwan policy review. As a result of it, high-level U.S. officials from economic and technical agencies now travel to Taiwan when appropriate.

There is a Trade and Investment Framework Agreement and subcabinet level economic dialogue that were established. We have recognized increasingly Taiwan's economic importance and the pivotal role that it plays in transnational issues.

We do support its membership in organizations that do not require statehood, so they are in APEC, for instance. I was in the Carter Administration when relations with China were normalized and was very much a part of creating the Taiwan Relations Act.

The President made very clear at Beijing University, in front of hundreds of millions of Chinese on TV, that we would live up to all of the aspects of the Taiwan Relations Act. We also, at a time that there were cross-strait problems, had put our money where our mouth is by having carriers in the region.

So, I believe that we have made very clear our understanding of the unique relationship that we have with Taiwan. I made the same statement that the President made a few weeks prior to that in China. Sandy Berger has made the statement many times before. We have all said it. The President was reiterating a current policy vis-a-vis Taiwan.

Senator MURKOWSKI. You say a current policy or no change of policy.

Secretary ALBRIGHT. Existing. No change of policy. No change of policy. This is a policy that has been developed since President Nixon went there in 1972, and I believe that what the President's trip has done, in fact, is kind of put the third leg into our overall relationship with China and Taiwan that is an evolving policy that is based on the same principles.

Also, sir, the Taiwanese authorities themselves were well pleased with what the President said. Mr. Lee, the leader of Taiwan, affirmed that we had kept our commitments to Taiwan during the summit. The foreign minister noted that the president's statements merely reiterated longstanding policy. The vice president said that his government does not support Taiwanese independence, one China, one Taiwan, or two Chinas. So we have been firm about not changing Taiwan policy as we are improving relations with the PRC. I think that, as the record is examined, that will be increasingly clear.

On the nuclear issue, we have a peaceful nuclear agreement now with the Chinese which we were not able to have before because we wanted to assure ourselves in terms of their nuclear transfers.

We are concerned about the environmental aspect of the Three Gorges, but I think we are now, as a result of the peaceful nuclear agreement, more in a position to be part of what they are doing in China.

But I think that our most important point here is to try to get them to be a part of the climate change treaties and convention and to have them understand that their emissions are going to be a major problem as far as the global climate is concerned.

I will let Ambassador Barshefsky deal with the salmon.

Ambassador BARSHEFSKY. From Taiwan to salmon. In the WTO talks, China has agreed to substantial tariff cuts for fresh, frozen salmon, as well as canned salmon. We are still negotiating, and inasmuch as we are in active negotiations, I do not want to go through numbers here, but I am happy to do that with you separately.

Senator MURKOWSKI. I am available at your convenience.

Thank you, Mr. Chairman.

Senator GRASSLEY. The Chairman asked that I apologize for his absence, because he is going to go vote. And I have voted, so that gives me an opportunity to ask you questions.

Secretary Albright, if we were here visiting about NAFTA, I would refer to some letters from my constituents that were talking about losing jobs, et cetera and the economic issues of trade.

When I hear from my constituents on China, obviously, if I hear from people who are in favor of normal trade relations, they obviously would write about the benefits economically to our country. But I hear mostly from those who are opposed, not on economic issues and not on losing jobs or anything like that, but about the religious persecution in China.

You mentioned this just a little bit in your statement, so all I am asking you to do, is if you would expand on your statement as to what is exactly the rights of Christians in China, and also whether revoking normal trade relations would help or harm religious freedom, particularly towards Christians, within China.

Secretary ALBRIGHT. Senator, the issue of religious persecution is obviously one that is of major interest to all of us. We have taken a number of steps to really acquaint ourselves more with what is going on, and also make our point of view very clear. It is evident that the number of believers in China is increasingly rapidly.

First of all, every time that I have had this discussion I hear a higher number, so that when I met with religious leaders in China—and let me make one point very clear, this was a meeting in which it was just with the religious leaders, no government authorities were there, in which the Protestant representative said that there were now, he thought, around 12 million believers. We discussed at great length in this meeting the issue of registration of churches.

The people made it clear that, in some respects, they find that the registration is a way of protecting some of the founding of the churches, especially in the countryside where some of the communist officials have not fully recognized that it is possible to have freedom of religion and association. So some of the religious leaders with whom I met made the point that they saw it as a protective mechanism. I think we need to pursue the issue.

The President has named religious leaders to go to China, a rabbi, a bishop, and a Protestant reverend, who have gone. I have now named a religious coordinator in the State Department, Mr. Siple, who is coming to deal with this issue.

It is one of major concern to us and we made that point in a number of private meetings, as well as the President and I both attending church services in China while we were there, and speaking about the fact that, if you worship, you are never alone.

Senator GRASSLEY. My last question to you would be in regard to something we discussed earlier this week in the subcommittee of this committee that I chair, on Jackson-Vanik, as it related to Vietnam. I do not want to talk about Vietnam. But at that hearing, we were talking about the legal requirements of Jackson-Vanik, specifically, that a Presidential waiver is only appropriate if it can substantially promote freedom of emigration.

It is interesting to me that the legal standard of Jackson-Vanik is not often discussed on an annual hearing of China's Jackson-Vanik waiver. So, Madam Secretary, would you discuss the emigration policy of the People's Republic of China, in light of the standards set by Jackson-Vanik?

Secretary ALBRIGHT. Well, it is my understanding that they meet that standard, but I will have to get you more details. I do remember that when the subject came up originally in 1980, that there was never a problem about the Chinese allowing emigration. It was a question as to whether we would accept that number of Chinese coming in.

Senator GRASSLEY. All right. It is my understanding that you have to go at 10:30.

Secretary ALBRIGHT. That is correct.

Senator GRASSLEY. Can I ask Ambassador Barshefsky a question?

Ambassador BARSHEFSKY. Yes.

Senator GRASSLEY. If we were to revoke Normal Trade Relations status, I guess I would like a sort of general response to you from a trade standpoint, what would be the likely response from the Chinese Government, what specific U.S. exports and industries would be put at risk, how many American jobs might be put in jeopardy?

Ambassador BARSHEFSKY. I think revocation of normal trade relations would be to counter retaliate, inasmuch as they would view the revocation as a retaliatory act that would put at risk \$13 billion in U.S. exports.

While there is a substantial trade imbalance with China, the export mix largely favors the United States. That is, we tend to send to China very high value added goods, particularly machinery, capital goods, airplanes, and electrical equipment.

China tends to send to the United States low-end merchandise. About 70 percent of everything China sends here is low-end footwear, low-end textiles and apparel, shoes, and so on. But we would be putting at risk high-end merchandise in the categories that I have already indicated. If you look at combined employment in the U.S. with respect to jobs accounted for by trade with China and Hong Kong, it is about 400,000.

A revocation of MFN, of course, with respect to China, would have very serious ramifications with respect to Hong Kong, since most of China's goods to the world go through Hong Kong first.

So we have to look not only at the effect on the U.S. from China, but also the effect, in turn, on Hong Kong of a U.S. revocation that would put at risk this 400,000 U.S. jobs.

Senator GRASSLEY. My last question to you, Ambassador Barshefsky, would be, if, while you were in China, there was any talk about World Trade Organization membership for China, if there was any concrete progress made for that, and did China, for example, agree to greater market access for U.S. agricultural products or to liberalize any trade and services?

Ambassador BARSHEFSKY. We made the least progress on agriculture. You and I have had many, many talks about the agricultural problems. We made some progress, significant in some areas of services, particularly professional services, some limited progress with respect to Telecom, and financial services.

We made progress also in our negotiations on further tariff reductions, non-tariff barrier reductions, as well as on Customs valuation, intellectual property rights, and several other areas.

We did make progress. Progress with China is slow, it is uneven, but the trajectory tends to be positive. I think we are still on a positive trajectory. But, as the issues begin to narrow, we see Chinese political sensitivities come into play, as we see come into play our economic and political need on precisely the same issues.

So this is slow going, but I think the trajectory is positive and I think the talks we have had with the Chinese the last three or four weeks have continued in that positive vein. Our negotiators meet again in two weeks.

Senator GRASSLEY. I will end just with an observation that you do not have to respond to, but it takes off from what Senator Moynihan was discussing with you. That is kind of how I see, because I know what is going on within the Republican party, about fast track. There are a few people, because of the election, would rather not have it come up, maybe more so in the House than in the Senate.

But I think our leadership is committed to wanting to go ahead with it and override those concerns, because it is felt so necessary that the United States is losing opportunity to lead on foreign trade if we are not at the table and if the President does not have the authority that he has.

Now, I know that is also, probably, a problem within the Democratic party within the Congress, and I would hope that the President would see the need to override any of those concerns in his political party that it should not come up, and help us get the votes because, again, whether it is Republican or Democrat, the historical relationship of this being bipartisan, and whether we have a Democratic or Republican President, the United States being in the lead of freeing up trade over the last 50 years, that we just cannot miss these opportunities.

So I would hope that the leadership of the Democrat party would see the need for overriding those concerns, just like the Republican leadership, and the Congress, I think, will move ahead without those political concerns.

Secretary ALBRIGHT. Senator, I am very glad you raised this point because I did not want the interchange that Senator Moynihan and I had to be the last word on this subject. I am sorry he is not here, but if you would indulge me for a moment, since you have brought it up.

The President fully supports fast track. It remains a priority for him, it remains a priority for the administration. He worked very, very hard—personally, very hard—as did the Vice President, with respect to fast track last year. As Senator Moynihan pointed out, the problem is on the House side. The problem is not on the Senate side. You and I have also discussed that issue.

This has been the most activist President in this century with respect to trade policy and with respect to the view that the United States should have open access to the world's market, since most of the world has essentially open access to the United States' market.

Because of his views, we have now concluded over 260 trade agreements in 5 years, 5 of which are huge: the Uruguay Round, NAFTA, the ITA, the Global Telecom deal, and, just 6 months ago, the Global Financial Services Agreement. Our exports are up 50 percent in 5 years, and account for one-third of our domestic economic growth.

The market opening agenda that we have embarked upon remains activist and unabated at this point by the absence of fast track. Fast track is a tactic, it is not a strategy. The strategy remains unchanged. That is for full and free market access around the world for U.S. goods, services, and agriculture.

We have continued that push aggressively bilaterally, regionally, multilaterally, and thus far have not been impeded, except for the absence of a free trade agreement with Chile, by the absence of fast track. Nonetheless, it obviously remains a priority. We will work with you and with the House in order to achieve it.

Senator GRASSLEY. We must do that, because there are negotiations going on and movements being made with other geographical sectors of the world negotiating, and we should be at the table, and we are not at the table.

Senator Conrad?

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

Senator GRASSLEY. Could I interrupt just a minute? I was told, Secretary Albright, that you had to leave at 10:30.

Secretary ALBRIGHT. I do.

Senator GRASSLEY. I thought I was indicating that you could go at 10:30. I am sorry I did not make it clear, but you should feel comfortable in leaving.

Secretary ALBRIGHT. Thank you. Thank you. I do, unfortunately, Senators. May I just answer a quick one?

Senator CONRAD. Yes, it would be very helpful to me if you could. First of all, let me just say how pleased we are with your service. The two of you have just outdone yourselves, and we appreciate very much the way you have conducted yourselves.

Secretary ALBRIGHT. That was good to stay for. Thank you. [Laughter.]

Senator CONRAD. I am in the camp of believing that we must be engaged with China, that we must pursue market opening. That is

critically important. I am also concerned that I see the Chinese, I am afraid, stalling and playing us along with WTO, because you have to wonder, after this lengthy period of time, that they have not put on the table something that is acceptable. When I look at what is happening with the trade imbalance, \$50 billion last year, they tell us in all likelihood \$60 billion this year, and I see them continuing to keep us out—let me just say with respect to North Dakota, we are a major wheat producing State, we have seen our wheat sales go from 3 million tons in 1995 to 1996, down to 400,000 tons at the same time the Chinese have opened up this enormous trade imbalance with the United States.

It leads me to the question, do we have an alternative strategy to opening up those markets other than WTO accession, other than fast track, to use the enormous leverage we have of being their biggest market?

That is really a question directed to you, Madam Ambassador, then I would like to ask the trade ambassador as well. Do we have an alternative strategy to pressure them to treat us fairly?

Secretary ALBRIGHT. Let me just briefly say that we are pressing them in a variety of ways to open themselves up to us. I am going to let Ambassador Barshefsky talk about the details of it. But I think we are constantly telling them that, for them to be a part of the international trading system, is not just to our advantage, but to our advantage and that they need to understand the value of being part of the system. We have put a variety of pressure on them through leverage in many ways. But let me let her deal with that.

Senator CONRAD. Can I just, before you leave, say to you very briefly that my State is in a farm depression. Farm income from 1996 to 1997 dropped, according to the government's figures, 98 percent. We are seeing, literally, thousands of farmers forced off the land this year. We anticipate next year will be a true calamity unless something happens. With the collapse of Asian markets, with sanctions we are putting on countries, with the Chinese refusing to take our wheat because of spurious concerns, contributes to that farm depression.

I cannot overstate what is happening in my State of North Dakota. We had these horrible disasters last year. They continue this year. There is a stealth disaster occurring in my State. No one much sees it because now it is on the farm instead of being in the cities. It is not visible because it is not floods and fires.

But it is a cash flow crisis that is literally extinguishing the livelihoods of a vast percentage of the farmers of my State. I think it is little understood, little recognized, but I wanted to take this opportunity to alert you to it because it is a true disaster occurring in my State.

Secretary ALBRIGHT. Well, I appreciate your saying that. Let me just make one comment. This has more to do with the point of sanctions. We are specifically supporting legislation exempting agriculture in terms of the sanctions on India and Pakistan, because we understand that problem. I am going to have to leave.

Senator CONRAD. We very much appreciate that support.

Secretary ALBRIGHT. Thank you, Senator.

Senator CONRAD. Thank you for staying. Trade Ambassador, maybe we could thank you as well for being here. Maybe I could direct more specifics of the question to you.

Ambassador BARSHEFSKY. Sure. I am happy to answer it.

Senator CONRAD. The thrust of my question is, do we have a backup strategy, a backup plan, to encourage the Chinese into fair treatment of U.S. business, U.S. exporters, and do you have any suspicion that they are stalling, that they are playing us along?

Ambassador BARSHEFSKY. I would not use the word "stalling." Let me tell you—

Senator CONRAD. Well, you are a diplomat.

Ambassador BARSHEFSKY. No. Actually, I am not a diplomat. It is one of the great advantages of my job. I do not think what we have here is a stall in the sense that there is some nefarious plot to string America along. I think there are four factors that have entered, over this last year, into China's slow movement on WTO.

First, as an over-arching comment, let me just say that the WTO accession, for any country, is a massive undertaking because you are looking at the economy in total, across all sectors, across all practices with respect to that economy. This is a massive undertaking, even for relatively modern economies.

I think with respect to China there are four basic factors that have played into their slowness. One, is that they are an economy in transition. That means that they are sometimes themselves unsure of what the rules should be and, indeed, sometimes ministries are unsure of what the rules currently are. That has made these negotiations slow going. This ties in overall to the lack of transparency in China's trade regime.

Second, you have the Asia crisis which has made China, and other countries in the region, rethink issues of market openness. Of course, from our point of view, from the point of view of the IMF and most economists, it is those economies that have maintained closed markets which have suffered the most with respect to the Asian crisis, Korea being one of them, because those closed markets tend to be symptomatic of a series of non-competitive industries needing to be shielded.

What you find, ultimately, in these kinds of crises is, in fact, there is massive non-economic production being supported by the State, to the detriment of overall economic growth. Nonetheless, there is, as you know, something of a theology among some countries that market openness has led to the Asian crisis.

Third, you have China embarked upon a massive program of internal reform, headed largely by Juangi, as you know, the Premier. This is a very significant undertaking with substantial domestic ramifications for China, because it necessitates the wholesale rationalization of their state-owned enterprise system.

That means, in China's mind, massive layoffs of hundreds of millions of people, the size of our entire population potentially laid off. That has further slowed progress. Of course, we do not agree that WTO accession would harm that in any way.

Last, you have China embarked on a program of bureaucratic downsizing of a massive nature. Well, if you are a Chinese bureaucrat and you think your job is at risk, do you say yes to the west or do you say no? The answer should be fairly obvious.

So, for those four reasons, I think we see progress that is slow. On the other hand, we have made progress. If we look at the first 8 years of China's accession, and if we look at the last 18 months, there is an exponential difference in China's attitude in the progress made in what China is willing to do. We are still very far apart, but I think China has come forward in the last 18 months with a series of at least passable proposals.

Senator CONRAD. Let me say, you may not be a diplomat, but you are diplomatic. Permit me to say, others of us look at what China is doing and we do detect a stall. I think it has played into their hands.

When I look at the trade imbalance, \$50 billion last year headed for \$60 billion, I see what the effect of all of this is in terms of a state-like mind. We are obviously a small player, but I can tell you, we are feeling it dramatically when we are locked out of that market in a very dramatic and significant way. We have gone from 3 million tons to 400,000 in the space of two years.

It looks an awful lot to us as though China is engaged in a strategy of managed trade that benefits them, that hurts others. And, for all the reasons you have given, in addition to what I would see as a stall, I am wondering, what is our backup plan? What other things can we do to get fair access to their markets for our producers?

Ambassador BARSHEFSKY. Let me, first, touch on the wheat issue. China has traditionally been, as you noted, a very large importer of U.S. wheat. The problem that we see, and from China's point of view it is not at all the problem, it is much to be desired, is that in the last 2 years China has had bumper crops in wheat. They have imported substantially less from around the world. We are not the only country affected by a slow-down in China's imports of wheat. Australia and others are similarly affected.

Secretary Glickman and I spent considerable time in China before the summit talking about agriculture with China, talking about wheat, including the TCK problem, which is a little bit of a separate problem, as well as corn, soybeans, so on, and so forth.

Secretary Glickman spent very considerable time with the Chinese Agriculture Ministry, apart from his and my joint meetings, on these subjects. But what we see at this point is not a change in China's import policies with respect, globally, to wheat. It is, instead, that China has had, now 2 years running, bumper crops in wheat and is importing less globally.

Having said that, with respect to the question of the trade deficit, there is obviously a concern about the extent to which that deficit indicates there are market access barriers. There are certainly market access barriers in China.

What I would like to do, Senator, is to sit down with you and other members of the committee and talk about the view of where we go if China's progress on accession does not pick up considerably in the coming months ahead.

Senator CONRAD. I now just have a couple of minutes before a vote. Let me just say this to you.

Ambassador BARSHEFSKY. Yes.

Senator CONRAD. Our percentage of exports to China, or of their imports, has declined. So it is true that their imports have dropped,

but our share has dropped out of proportion to what have traditionally been our share of their market, which we see as, they are engaged in an effort to keep us out of that market, through TCK and other objections that they raise.

Let me just say to you, as I said to our Secretary of State, we are faced with a true depression in North Dakota agriculture. I have never seen anything like this in my lifetime. This is worse than the 1980's by a significant factor. We say, be patient. That is not a message that is acceptable.

China simply has to respond, and other countries simply have to respond. We cannot leave our market open to them and then accept the notion that they close their market to us. That is simply unfair and unacceptable, and we have got to send that message.

I, unfortunately, have two minutes left to make the vote. So we are going to stand in recess until 11:00, or the call of the Chair.

Ambassador BARSHEFSKY. Thank you.

Senator CONRAD. Thank you.

[Whereupon, at 10:51 a.m., the hearing was recessed to reconvene at 11:13 a.m.]

The CHAIRMAN. The committee will please be in order.

It is a great pleasure for Senator Moynihan, my colleagues, and myself to welcome such two distinguished foreign affair experts. I apologize for the delay, but I think you gentlemen know as well as anyone the difficulty of planning anything here and then following through.

But we are honored to have two very distinguished former National Security Advisors. Dr. Brzezinski, it is always a pleasure to be with you. And I cannot tell you how happy I am to have you here, General Scowcroft.

Without more, we would urge you to proceed. Zbig, do you want to start?

STATEMENT OF HON. ZBIGNIEW BRZEZINSKI, PH.D., COUNSELOR, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES; FORMER NATIONAL SECURITY ADVISOR, WASHINGTON, DC

Dr. BRZEZINSKI. Mr. Chairman and Senator Moynihan, thank you for inviting me to address this very important issue. The card in front of me in large letters identifies me, but underneath it in very small print it says the following: "Please limit your testimony today to 5 minutes." [Laughter.]

I will bear this injunction in mind by simply addressing three points which I will like to make as the point of departure for our discussion.

First of all, in my view, the American and Chinese relationship is potentially the most important bilateral state-to-state relationship in the world. In the years to come, if China sustains its growth, not necessarily at the rates at which it has maintained them in recent years, it will become one of the largest economies in the world.

I do not quite accept the statistical determinism that sometimes is projected in terms of China's future, but there is no doubt that this is going to be a very major power.

Indeed, in terms of the importance of the bilateral relationship, I can see it being overshadowed only by the American-European relationship if Europe unites, if Europe really becomes the European Union. But, short of that, the relationship with China is potentially the most important bilateral relationship in the world.

Second, I would like to stress, particularly in view of some of the journalistic commentaries about China, that China is not the Soviet Union of the past; it is neither America's enemy, nor America's rival. China is a major developing regional power. It is guided residually by the communist ideology, but that ideology is increasingly formalistic and it does not guide China's socioeconomic transformation.

Unlike the Soviet Union, China is not a world military power, nor does it project global ideological aspirations. It is focusing increasingly on internal development, on internal change, conducted on the basis of authoritarian, dictatorial, one-party monopoly. But the nature of that power is changing and the scope of social initiative and the margins of personal freedom are gradually beginning to widen. That has to be recognized.

In that context, I think it is very important that the American-Chinese relationship be viewed as one of expanding, with emphasis on the word expanding, that cooperation. To accomplish that objective, stability and predictability in the relationship is desirable, from both ends.

This is not to deny the fact that a great deal needs to be done within China to make China meet the increasingly accepted international standards of democracy, human rights, respect for individual personality. But in this area, some change has also been taking place.

My third and final point, is that the importance attached to our relationship with China should not involve slighting the importance of our relationship with Japan. The way I would put it is that, from a duo strategic perspective, the relationship with China is the most important relationship insofar as mainland Asia is concerned, and particularly mainland Far East.

The relationship with Japan is the most important relationship insofar as the Pacific Ocean is concerned. There is an important duo strategic distinction that flows from this.

But respecting the importance of our relationship with Japan makes it very important that Japan not be slighted. While I generally applaud the way the recent Presidential visit to China has been conducted and I view it as a positive step in the further expansion of cooperation between the United States and China, I do sense some regret that it was not possible to make that visit a combined visit, thereby to dramatize the equal importance, though also the different importance, of our relationship with China and our relationship with Japan. I think that message, perhaps, should have been conveyed more explicitly than it was in the course of the recent visit.

I believe my 5 minutes are up, Mr. Chairman, so I will stop right here.

The CHAIRMAN. Thank you very much, Dr. Brzezinski. General Scowcroft?

STATEMENT OF HON. BRENT SCOWCROFT, PRESIDENT, FORUM FOR INTERNATIONAL POLICY; PRESIDENT, SCOWCROFT GROUP; FORMER NATIONAL SECURITY ADVISOR, WASHINGTON, DC

General SCOWCROFT. Thank you very much, Mr. Chairman, Senator Moynihan. It is a great privilege for me to be here to discuss such an important issue with you. While the technical issue is MFN, that has become fairly well routinized and I would—

Senator MOYNIHAN. General, could I interrupt to point out that, just about 15 minutes ago, by a vote of 96 to 2, we abolished that 17th century French usage and henceforth we talk about normal trade relations.

General SCOWCROFT. I stand corrected, sir.

Senator MOYNIHAN. You will not be bedeviled by the question of, why should China be our most favored nation? [Laughter.]

General SCOWCROFT. A wonderful development.

So I would like to follow my colleague here, sometimes almost directly in his footsteps, with backing away and looking at the phenomenon of China and the U.S.-China relationship.

I would echo Zbig's comment, that almost certainly it will be the case that in the 21st century no country will be more important to the United States than China. Whether that importance will be for good or for ill may depend significantly on developments over the coming several years.

I think it is clearly in the U.S. interest that the U.S.-China relationship develop in a positive way and that China take its place as a great power in a responsible and productive manner as a member of the world community.

Nevertheless, if we, the United States, are determined to remake China in our own image, we shall certainly fail. We may, in that process, create the enemy some feel is already emerging.

That will likewise be true if we conclude now that China is destined inevitably to become a foe of the United States and its interests in Asia or the broader world.

But if our goal is to encourage China to become a useful member of the international community with a true stake in its stability and progress, then I think there is much to be hopeful about. It is true that there are a number of frictions and issues of concern between us.

That will always be the case. We are very different societies with very different historical legacies and patterns of development. Those will cast a shadow. They do now, and they will far into the future.

Many of those differences in the early days after President Nixon's visit to China were sublimated in the cooperation against the common expansionist threat. The nearly simultaneous end of the Cold War and the tragedy of Tiananmen Square, together with the evolution of the relationship, have brought to the fore a number of the problems which we tended to gloss over in the earlier days. I will not discuss them in detail, but among the most prominent, of course, are the issues of human rights, Taiwan, proliferation, and trade relationships.

All of these are important issues. They all have a role to play in the evolution of this relationship. But, again, as Zbig said, China is a country on the move. It is a huge society.

A society can change only at a certain pace. While China formally adheres still to the communist ideology, there is no indication it is driven by any kind of messianic compulsion, as was the case with Nazi Germany or with Stalin's Soviet Union. Instead, it is bent on changing its own internal society.

I first went to China at the outset of 1972, at a time when the cultural revolution was in full sway, when the Chinese people were at the total mercy of terrorist thugs. It was a terrible time. Yet, then we saw our national interests then, as a country, to be in reaching out and engaging with this large country from which we had been alienated since 1949. I think that judgment still is a wise one.

The China of 1998 is a different China. While we can look at China today and find much to criticize, we should also look at the strides it has made since 1972 and find much to praise.

The evolution of China over these past 25 years, I think, has been breathtakingly swift and, on the whole, most definitely in the right direction. The U.S. policy since 1972 to engage certainly cannot take credit for the evolution of China but, clearly, it was a beneficial, not a harmful, influence.

Let me just close by pointing out that just last month, the former Presidents of the United States, with the exception, for obvious reasons, of former President Reagan, former Secretaries of State, and National Security Advisors of all administrations, beginning with the Nixon Administration, publicly reaffirmed the critical importance to the U.S. interests of continuing to engage the Chinese in a positive fashion. I think that is an impressive reaffirmation of the course we have fundamentally been on since 1972, and from which we should not deviate. Thank you.

The CHAIRMAN. Well, thank you, General. Let me ask a question on the impact of our relationship with China. Many people do, of course, argue that engagement is important, in that it gives us a better opportunity to influence and help move that great country towards democracy.

Now, you both were National Security Advisor. During that period forward, we have had a pretty consistent policy of engagement. General Scowcroft, you said that you felt that our relationship has been beneficial. Is there anything that we can point to specifically as to why this has been a helpful, constructive relationship, influential? I would like to ask Zbig the same thing.

General SCOWCROFT. I think, if you simply look at China in 1972, run by Mao Tse Tung, who in 1972 was about to purge even Deng Xio Peng, an absolute—absolute—autocracy with unbelievable cruelties; Mao believed in a permanent revolution, that every 8 or 10 years you had to clean out because, as soon as you got a system going, you developed a bureaucracy, and so on. This was a true communist society, not a true authoritarian society.

If you look at China now compared to 1972, you simply would not recognize it. There are an average of 40,000 Chinese students a year in American colleges.

The CHAIRMAN. How many was that?

General SCOWCROFT. About 40,000.

The CHAIRMAN. Forty thousand.

General SCOWCROFT. Now, do they all go back? No. But a lot of them do. What do they go back with? If they do not go back inculcated with the kind of values that we hold dear, then our educational system is failing. I do not think it is.

You can go around Beijing and Shanghai now. They have Internet cafes for people who cannot afford lap tops. You can go in and buy a cup of coffee and get an hour on the Internet. Now, are there things blocked from the Internet? Yes. But it seems to me, whatever direction you look, China is opening up, it is evolving, slowly in some areas, and there is no doubt a system inside it, the middle levels and the lower levels who believe in the old authoritarian, centralized system. But I think that it is dramatically changing and I think, in considerable part, because of the engagement with the United States.

The CHAIRMAN. Zbig?

Dr. BRZEZINSKI. Brent, in his answer to you, focused on the scope of internal change. I think he is absolutely right, the change has been dramatic and, by and large, very positive. Let me focus on the external aspects of the consequences of the relationship.

I would say the China of today is much less of a revolutionary force, and increasingly a stabilizing force in that part of the world. The four-power talks regarding the future of Korea have certainly helped to contain some of the potential for violence on the Korean peninsula. China not only has constructively engaged in the process, but there is now a relationship between China and South Korea which creates greater stability in Northeast Asia.

The accession of Hong Kong to China has been carried out, by and large, in a very normal and constructive fashion. Recently, we have had here in Washington a visit by a prominent Hong Kong leader, Mrs. Lee, who spoke very eloquently about the conditions that currently prevail in Hong Kong.

That, too, I believe, is a contribution to stability. It ends a colonial phase in China's relationship with the world, but ends it in a constructive, cooperation fashion. I believe that China has now adopted a more restrained policy regarding some of its claims in the South China Sea, regarding the offshore islands that might be rich in energy sources. There was an inclination in the past to assert these claims only by force. The Chinese are now more restrained in their conduct.

China and the United States share a complementary interest in the independence of the central Asian countries and in the access of the international community to these countries for purposes of investment and for the purpose of the export of energy sources from these countries. That is an important shared duo strategic interest.

Beyond that, some progress has been made, not as much as one would have hoped, but nonetheless some progress apparently is being made in our discussions with the Chinese regarding greater Chinese restraint on the matter of proliferation of weapons of mass destruction or capabilities for their acquisition. That is progress in the right direction. It is not yet a success, but certainly it mitigates some of the earlier tendencies.

Last, but not least, China no longer espouses a revolutionary ideology insofar as its relationship with the world is concerned. In the past, China defined itself as part of some inevitable progression towards a world revolution, and so it was also the basis for that progression.

Today, China increasingly emphasizes not only in words, but also in deeds, the importance of regional cooperation in the Far East, and espouses as well aspirations for greater participation in the international system eventually.

There are difficulties on the way to China's accession to the WTO. You had expert witnesses on the subject earlier this morning. But the discussions are about accession, how to achieve it, and when, and under what conditions.

All of that, it seems to me, to indicate that what I describe as the relationship of expanding cooperation is actually both a definition of an objective and a description of an evolving reality. That is not unrelated to the fact that we have refrained from treating China as an enemy, labeling it as an enemy, and, therefore, permanently making it into an enemy.

The CHAIRMAN. I have been to China twice, once in 1976, 1977, right after you moved into the White House, and then I was there last year. It seemed to me a very significant change. China, in the 1970's, was truly a totalitarian nation. Everything, though control, clothes, you had to wear the Mao jacket. A woman could not even have a little scarf on. I thought the difference was extraordinarily significant.

Let me ask you the reverse side of the coin, though. Let us say that Congress, in its wisdom, decided not to continue with normal trade relations. What kind of effect would that have on China?

Dr. BRZEZINSKI. I think a very adverse effect in terms of China's definition and conception of its relationship with the world. It would enhance those forces in China, and there are such forces, that would like to promote an essentially dogmatic program, retain ideological control not only over the leaders of power, but over society and the economy as well. I think it would be a contribution to its retrogression in China's internal politics.

The CHAIRMAN. Brent?

General SCOWCROFT. I certainly agree with that. I think China feels very deeply 150 years of colonialism, in a fashion, and rape by the West, being treated as inferiors.

I think this would be taken as a sign that we have not progressed beyond that and that we demand from China the way that our traders used to demand ports of duty-free entry and so on, and so forth. I agree with Zbig, that the reaction could be devastatingly severe inside China.

The CHAIRMAN. One of the concerns we heard expressed in some of the questions this morning of my colleagues, and certainly you read in the media, is that China has become such a focus of our international policy that it is having an adverse effect on other major powers in the area, such as Japan, India, or our relations generally in Asia, that we seem to be so eager to cement and strengthen the relationship that the other relationships are playing second fiddle.

Brent, do you have any comment on that?

General SCOWCROFT. Yes, I do. I think, if we do not know how to walk and chew gum, we had better learn. I agree with Zbig, I think it was a serious mistake for the President not to go by Japan on his way to or from. We have to put China in the context. We cannot be mesmerized with it, first of all. They are going to go their own way. We can move this great state of China only very, very gradually, and I think more by example than anything else.

We do have a number of interests, and sometimes they appear to conflict. For example, if we join up with China and South Asia in a way that makes it look to India as if there is collusion, we will lose influence in dealing with that there. So we have to be very cognizant of China's place in the larger scheme of the kind of world that we are trying to construct.

The CHAIRMAN. Zbig?

Dr. BRZEZINSKI. I basically will echo what Brent just said. It seems to me that the art of international politics is the skillful balancing of different forces and powers. China is emerging, and in fact already is, as the preeminent power on the mainland of Asia. A relationship of strategic stability with China is essential.

At the same time, Japan is the primary economic power in the Far East and is an important offshore force in the Pacific. Cultivating the relationship with Japan and encouraging Japan to become one of the most active good citizens of the world in terms of peace-keeping, international economic development, aid, and so forth, is also a vital strategic task.

It is a different one from the one that influences our relationship with China, but it is also a terribly important one. That requires not only substantive nurturing, but also symbolic acts, such as trips, and we have both referred to that.

India is an important regional power in South Asia and, as such, we obviously need to nurture a relationship with it as well. Here again, the question of balance is importance. Maintaining a balance with our relationship with India and China, Pakistan and Russia, which are the major players that are involved here, is also an important diplomatic objective and we have to be conscious of that.

To make that possible, we have to pursue what I would call a broad Eurasian strategy. That is to say, increasingly think of our policy not as involving a policy for the Far East and a policy for Western Europe, but a policy which thinks of this huge mega-continent, Eurasia, as the arena on which American leadership is exercised.

That means a policy of very careful balancing of different powers and of trying to maintain a relationship between them that does not place anyone in jeopardy, but also does not permit the emergence of any hostile coalition against us. These are some of the basic strategic calculi that ought to guide our approach to China, but also to the continent at large.

The CHAIRMAN. There has been a fair amount of controversy about the President's statement on Taiwan. I wonder how you construe these statements, what effect you think they will have on our relationship, both with China and Taiwan?

General SCOWCROFT. I think that the administration is correct that they have not changed the policy. But what they have done, is take the artful ambiguity of the Shanghai communique which

gave everybody room to maneuver, and make it explicit to the point that it causes discomfort to a lot of people. I would prefer the notion——

Senator MOYNIHAN. Can I ask, that was with President Bush, the Shanghai communique?

General SCOWCROFT. The Shanghai communique was President Nixon.

Senator MOYNIHAN. President Nixon.

General SCOWCROFT. President Nixon. Yes.

I would have preferred a little more ambiguity, reaffirming the Shanghai communique and saying there should be no unilateral moves to upset it, and so on, rather than the three no's.

I think it will probably produce a reaction in Taiwan, and perhaps on Capitol Hill, which will complicate rather than ease this problem. I think time is on our side, but we need the time, and there are lots of rocks in this road.

The CHAIRMAN. Zbig?

Dr. BRZEZINSKI. Creative ambiguity is clearly essential, and we have maintained it for more than a quarter of a century now, since the Shanghai communique was reaffirmed again when the United States and China normalized relations in 1980, and has been reaffirmed in the course of the 1990's.

However, we have to also be sensitive to something which is very important and dangerous. If the authorities in Taiwan get the idea that they can declare formal independence, which, in effect, would mean secession from China, the creation of an internationally-recognized separate state, that in these circumstances the United States will still be bound to defend Taiwan, and we might unintentionally encourage a move in that direction.

The essence of the relationship between the United States and the People's Republic of China and the authorities in Taiwan is that the status quo, clothed in ambiguity, is maintained.

The parties themselves, the Chinese parties, subscribe to the notion of one China. We maintain the position that we recognize the government of the mainland as the government of China, but we also insist that no force be used to alter the status quo, and the authorities in Taiwan continue subscribing themselves to the notion that there is one China.

If they should get the impression that Congress is prepared to support a unilateral declaration of independence by Taiwan, we could get ourselves into a very big mess.

The President's statement may not have been artful, but I think that some of the recent tendencies in Taiwan have perhaps made it more necessary than was the case until recently.

I think it is very important for everyone concerned to realize that the creative ambiguity that has clothed the relationship is still in everyone's interests, and that we are not prepared to abdicate our own decision making to those who might want to alter the nature of the existing arrangements by a unilateral act of *de facto* secession. Let us be clear about it, it is an act of secession that would be then involved.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Well, we have two legendary figures here before us. I am somewhat intimidated by the thought of proposing any—

General SCOWCROFT. You, Senator?

Senator MOYNIHAN. Well—[Laughter.]

Dr. BRZEZINSKI. I would very modestly say four.

Senator MOYNIHAN. One war story. I was in China in 1975. I was coming back from being ambassador to India. The Chinese, for some reason, were interested to talk to me about India. I met with a member of the gang of five, who I did not know at the time to be such. But as you went around Peking, as it then was, you saw these tremendous, just absolutely bizarre, in the middle of Tiananmen Square, two enormous flag poles.

Up there were massive portraits of two hirsute German gentlemen of the 19th century, Mr. Marx and Mr. Ingells, and then a rather Mongol-looking Stalin, then Mao. But what are those two fellows in frock coats and white collars doing there?

But the population was all dressed in green, blue or gray; army, civil service, and just workers. My youngest son was with us, and we were staying with George Bush, who was then just our representative. He said, the people here are color coded, which I thought was sort of nice.

Can I ask you a question I was pursuing with the Secretary just this morning, who said of the visit, "In recent weeks, China has played a significant and helpful role in trying to move India and Pakistan back from the brink of a nuclear arms race."

I asked, what evidence have we of that, and was it not Chinese assistance to Pakistan that produced the detonations they had, plus the missiles that they got from North Korea, perhaps, but certainly through the agency of the Chinese. That Shanghai communique is well unknown in India because it is sort of markedly pro-Pakistan.

I will just read an example. "We firmly maintain that India and Pakistan should, in accordance with the UN resolutions on the India-Pakistan question, immediately withdraw all their forces to their respective territories and to their own sides of the cease-fire line in Jammu and Kashmir, and firmly supports the Pakistan Government and people in their struggle to preserve their independence and sovereignty, and the people in Jammu and Kashmir in their struggle for the right of self-determination." That is not something that Taiwan does not have, they do.

But, I mean, the idea of supporting the Pakistan Government and people in their struggle to preserve their independence and sovereignty argues that the Indians are out to undermine or subvert that independence and sovereignty. In any event, you now have two nuclear powers there. I would just like to ask either of you, or both of you, because, Zbig, you said they have made some progress in non-proliferation. You said just a little bit.

Had this not become more of a priority for us than it is now, the South Asian situation? My specific concern, is the prospect that that Islamic bomb will migrate to the Middle East by a similar process of somebody buying it from a bankrupt Pakistan, that it is now faced with our sanctions. I do not see much progress there at

all. It could be a much worse situation than just a regional one in South Asia. May I ask your views?

Dr. BRZEZINSKI. Well, the Secretary referred to some developments over the last three or so weeks, I think you said, Senator, and I am not privy to those developments. But it does appear that in the American-Chinese discussions, some basic ground rules have been reached regarding the nature of Chinese assistance to the nuclear programs of such programs as Iran. So some progress has been made. How far-reaching it is and the extent it will be respected, only time will tell.

It is a fact that, over the years, the Chinese have helped Pakistan. You are absolutely right. The Russians have helped India. That is also a fact. These two countries have been hostile to each other and the Chinese have been a party to their rivalry. That is one of the facts of life there.

I would hope that we and the other nuclear powers might be able to influence the Pakistanis and the Indians not to weaponize, because that is the issue now. They have conducted tests. They do not have the weapons yet.

Senator MOYNIHAN. They have the missiles and they have the potential warheads.

Dr. BRZEZINSKI. That is right, so they do not weaponize.

Senator MOYNIHAN. Yes.

Dr. BRZEZINSKI. That is obviously in our interest. It is also in our interest, as you said, that there not be further proliferation. But here, this opens up a whole Pandora's Box, I hasten to add. In my view, we have to take a critical look at our own somewhat sanctimonious policy on non-proliferation.

I say it is sanctimonious because we subscribe to the notion that we are against proliferation, but we have pursued over the years ourselves a policy of selective and preferential proliferation. We aid the British openly. It has been stated, and I think it is correct, that we have aided the French. We have certainly winked at Israeli acquisition of a nuclear capability. So we have not been Simon Pure in the pursuit of non-proliferation.

Second, if you want countries not to obtain nuclear weapons, you have to give them some sense of assurance against neighbors that do. We would have to be prepared, in effect, to guarantee the security of countries whose neighbors acquire nuclear weapons.

I do not think Congress is prepared to give such a blank check, either to the administration or to other countries, and we can only perhaps do something closely equivalent to it with the other nuclear powers—that means Russia, China, Britain, and France—and we have not done that.

So I have some real reservations about the reality, the substance, of our non-proliferation policy. I think it is a rhetorical question rather than a real policy.

Senator MOYNIHAN. General?

General SCOWCROFT. We could have a long discussion about India, Pakistan, and the 1970's, and so on. The language that you cited there came from a period where actually there was fairly close U.S.-China cooperation supporting Pakistan. From the Pakistani point of view, they were dismembered in 1971, I believe, with the creation of Bangladesh. A few more exuberant comments from

India gave some concern that India might try to reverse the division.

Anyway, that goes way back then. Then, as a result of Pakistan's ventures into the nuclear realm, we backed out of that entirely, but the Chinese never did. I think they were partly trying to create some kind of a balance in South Asia which would be in their interest and preserve some counterweight to the Indians.

I think what has really happened recently, though, at least as I detect some of the reasons for Chinese changes, for example, reaching out to India over the past few months.

They have made considerable, at least rhetorical, progress in settling the kind of air of hostility with India. The agreement on Iran, not to continue to furnish them, I think is part of China growing up and being part of the world instead of looking at their narrow interests.

Whether it is making trouble for India to keep them off their back in South Asia, or whether it is maybe to ensure better treatment for oil in Iran, they realize that if Iran makes trouble in the Gulf and shuts off oil, which now China has to buy, then oil prices go up and that hurts them. I think you have a maturing in China which gives them more interest in cooperating on issues other than just their narrow self-interest.

Senator MOYNIHAN. I could not more agree, but I just pray it is not too late.

General SCOWCROFT. Well, it may be. On the NPT, I agree, I am not a tremendous fan of the NPT. But in the U.S. language, and I do not remember exactly what it is, that accompanies that treaty there is a statement that the nuclear powers have an obligation.

Senator MOYNIHAN. It so says, does it not?

General SCOWCROFT. It so says. I wrote a little piece at the time the Indians exploded the weapon, and said we ought to give a nuclear guarantee to Pakistan right now against a nuclear attack from the outside to try to stop both sides doing it. But I agree with you. I do not think the Congress, or this administration, is prepared to go that far.

Senator MOYNIHAN. Thank you very much. I would say, and I think the Chairman would agree, that whatever else, normal trade relations with China are going to continue.

The CHAIRMAN. I agree very strongly on that. Let me ask one final question. There has been a lot of debate here as to whether our trade is contributing to the military modernization of China. I wonder, what kind of threat does the People's Liberation Army pose today, and how is that situation likely to change in the coming years?

General SCOWCROFT. We had, before Tiananmen Square, some fairly significant military cooperation with the Chinese. It was just getting off the ground, and it was all stopped. But we have given them far more aid than whatever—I am not privy to what has gone on with Lorall, or Hughes, or whatever they may have done quietly.

The Chinese are building up their military forces. At the time Deng Xio Peng came in, he had the four modernizations to build China. The military was number four. In other words, they got what was left over. This was one of the impetus for them to go into

commercial business, to try to get money to improve themselves. Now they are improving.

Their defense budget is pretty meaningless because it does not include a lot of the things that we include in ours, but there is no doubt that they are modernizing. They start from such a low base that, at the present rate, it will take decades for them to constitute a serious threat.

But if they focus, for example, on what it would take for them to be able to take Taiwan, for example, on just those kinds of forces, they could create problems for us in a number of ways.

I think the notion that Lorall, Hughes, or whatever stepping a little bit over the line and giving them some kind of advice on launches for satellites is not fundamentally jeopardizing U.S. national security.

It is wrong if they did it and it is exceeding what they are entitled to do, but it seems to me that that satellite launch program was very much, and is very much, in the U.S. national interest. But it ought to be monitored carefully.

The CHAIRMAN. Zbig?

Dr. BRZEZINSKI. I think it is undeniable that trade with the United States does give China some additional capability for enhancing its military. I think that is undeniable. But suppose there was not such trade. Suppose there was no MFN.

Would that mean that they could not do so with the British, the French, the Japanese, the Germans, Canadians, also, who could probably get it from us and transfer it? In other words, global economics is porous, it is permeable.

Second, China is now a major economy. It is just a major economy and they have the capability also to enhance military power on the basis of domestic effort and resources. Let us not forget that, until the 1800's, China was the number one industrial power in the world. The Chinese invented gunpowder, rockets, and so forth. I think they can do pretty well on their own.

So I do not think that trade with China and MFN threatens our security in any directly tangible fashion, and it might indirectly, by creating links and relationships, help to integrate China into the kind of international system that we are so actively engaged in promoting.

So I see it essentially as a tool of the long-range process of helping to transform China's relationship with the world, and with us. In that context, I therefore do favor the greatest degree of stability and predictability in the relationship.

I cannot help but note that the countries currently subject to waivers with respect to MFN, and they are Albania, Armenia, Azerbaijan, Belarus, China, Georgia, Kazhakstan, Kierkestan, Muldova, Tajekistan, Turkmanistan, Ukraine, and Uzbekistan. If you were a Chinese statesman who feels proud of your country, who feels that it is a major power in the world, who hopefully favors a stable relationship with the United States, I think you would find being in that list not exactly reassuring, or a compliment.

The CHAIRMAN. Any further questions?

Senator MOYNIHAN. I have no further questions. But could I ask Dr. Brzezinski just once more to say normal trade relations? [Laughter.]

Dr. BRZEZINSKI. Yes, indeed. That is very good. I am glad you have done that.

The CHAIRMAN. I must say, we are all having difficulty with that.

Dr. BRZEZINSKI. Normal Trade Relations. So it is NTR.

Senator MOYNIHAN. NTR from now on.

Dr. BRZEZINSKI. All right. Very good.

Senator MOYNIHAN. Thank you, gentlemen, so very, very much.

The CHAIRMAN. Yes. I just would like to echo what Pat said earlier. I think this Nation has been very fortunate in having the advice and counsel of you two gentlemen down through the years, and we all appreciate your wisdom and patience. Thank you very much for being here today.

Dr. BRZEZINSKI. Thank you for having us.

General SCOWCROFT. Thank you very much for having us.

Dr. BRZEZINSKI. Indeed. Thank you, sir.

The CHAIRMAN. I now want to welcome our third panel of witnesses. We will, first, hear from Mr. Ernest Micek, who is chairman and chief executive officer of Cargill; Mr. Frederick Smith, chairman and CEO of Federal Express Corporation.

We are also very pleased and fortunate to hear from Mr. Mike Jendrzejczyk of the Asia Division of Human Rights Watch; Rabbi Arthur Schneier, president of the Appeal of Conscience Foundation; and Dr. Warren Smith, an expert on Tibetan affairs.

Gentlemen, it is a real pleasure to have such a distinguished group. I will start this panel out as I have the others by apologizing for the lateness, but votes on the floor always seem to interfere with the much more important matters before us in committee.

It is a pleasure to welcome each and every one of you.

Mr. MICEK, WOULD YOU LIKE TO START?

STATEMENT OF ERNEST S. MICEK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CARGILL, INC., WAYZATA, MN

Mr. MICEK. Yes, sir. Good afternoon. My name is Ernie Micek. I am chairman and chief executive officer of Cargill, Incorporated. Today I am testifying as chairman of the Emergency Committee for American Trade, or ECAT, on behalf of its member companies about the increasing importance of U.S.-China trade and the need to renew China's normal trade relations, NTR treatment, a priority for ECAT member companies.

Cargill has been doing business in China for nearly 30 years. Our presence in China does not mean that we approve of everything that happens there. We believe a great deal must change to transform China into a pluralistic society, government democratically, and driven by a market economy.

Our experience doing business in more than 70 countries convinces us that walling off a neighbor cuts off an opportunity to change that neighbor's behavior and makes the global neighborhood a more dangerous place. We believe that lesson applies to China as well.

I have five points that I would like to make in my presentation today, and refer you to the written version of my testimony for more detail.

First, NTR treatment does not confer any special status on China beyond what is normal trade status for the majority of U.S. trading partners.

Second, the renewal of China's NTR status is essential to the continued expansion of U.S. trade and investment in China.

First, the extension of the NTR treatment to China in 1979. Since that time, U.S. exports of American goods and services have grown nearly twenty-fold, to \$16 billion in 1997, while U.S. investment in China has grown to \$25 billion.

U.S. exports to China support more than 200,000 U.S. jobs across every sector of our economy. China already is one of the largest markets for U.S. agricultural exports, buying an average of 8 to 10 million tons of great per year, with the potential to import 30 million tons of grain perhaps as early as the year 2010.

From the United States, in addition to grain, Cargill ships orange juice and phosphate fertilizer, as well as cotton, corn, soybeans, soybean products, and meat. Cargill has invested in facilities in China and we now employ over 500 people in China.

We are very proud of the fact that we and many other U.S. firms have made a positive impact on the lives, attitudes, and behaviors of our employees in China through improvements in workplace habits, supplying better products, paying higher wages and benefits.

Cargill's trade with China also provides important benefits here at home. The export of phosphate fertilizer to China and elsewhere enables our Florida phosphate facilities to operate year-round.

Jim Johnson, one of our union employees at Tampa, spent a week in Washington last year telling that story to members of Congress as part of an effort to secure passage of fast-track legislation.

He and others like him in our many export-oriented facilities know the United States needs to compete in today's global economy and needs fast track trade negotiating authority to get the best competitive terms it can.

Doing business in China is not without challenges, as described in my written statement. Nevertheless, we are building a business as we have learned to do in many other countries: responsibly and honorably. Our limited success to date and our hopes for the future, like the hopes of other American companies, will be jeopardized if China's NTR status is withdrawn.

My third point, is that the withdrawal of China's NTR treatment would jeopardize U.S. security interests and the spread of western influences in China. More than just commercial interests are at stake, as we have heard earlier.

Withdrawal of China's NTR status would undercut important gains the United States has made in achieving greater strategic cooperation with China and would undermine the remarkable transformation of Chinese society over the last two decades, resulting from its opening to the west. The Chinese people now enjoy higher living standards, greater economic freedom, and more access to outside information than ever.

Fourth, the continuation of China's NTR status is essential to maintaining the health of Hong Kong's economy and preserving Taiwan's prosperity and autonomy. Hong Kong remains a vitally important gateway to China, and its open economy is a very important major influence on mainland China.

Finally, we should not lose sight of the importance of maintaining a broad vision and moving forward a more stable relationship with China built on greater mutual understanding and trust. Maintaining China's NTR status advances U.S. national interests.

In closing, while I recognize the focus of this hearing is on U.S.-China trade relations, I want to take this opportunity to thank you, Mr. Chairman, Mr. Moynihan, and other members of the committee for your leadership in the support of the renewal of fast-track negotiating authority.

The enactment of broad, multi-year fast-track authority is critical to strengthening our Nation's trade infrastructure as it is in providing for adequate funding for IMF, CBI parity, and legislation promoting trade with Africa.

Mr. Chairman, Cargill and other ECAT member companies look to your guidance in moving forward on this agenda and urge the Congress to work together on a bipartisan basis to enact these critical trade issues before the end of this Congress this term.

Mr. Chairman, I would also like to ask that the statement of the Business Coalition for U.S.-China Trade, in support of China's NTR renewal, and the Business Coalition letter to Majority Leader Lott be entered into the record of this hearing.

I appreciate this opportunity to appear before the Finance Committee on behalf of ECAT, and I look forward to responding to your questions. Thank you very much.

The CHAIRMAN. The documents will be included as part of the record.

[The prepared statement of Mr. Micek, along with the statement and letter submitted by the Business Coalition for U.S.-China Trade, appear in the appendix.]

The CHAIRMAN. Now, it is my pleasure to call on Mr. Fred Smith.

STATEMENT OF FREDERICK W. SMITH, CHIEF EXECUTIVE OFFICER, FEDERAL EXPRESS CORPORATION, MEMPHIS, TN

Mr. FREDERICK SMITH. Thank you, Senator. I am here wearing two hats today. First, as the chairman of FedEx, which is the largest express transportation system in the world and is one of three U.S. air carriers which operates to China and the only all-cargo operation to China, and then secondarily, I am here wearing a second hat as the vice chairman of the U.S.-China Business Council, which is a private, nonprofit, and nonpartisan association with about 300 U.S. member companies.

I have submitted a written statement which is longer than the three points that I would like to make.

The CHAIRMAN. All statements will be included as if read.

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

Mr. FREDERICK SMITH. Let me make these three points, very briefly. First, it is my opinion, and certainly the opinion of the U.S.-China Business Council, that liberalized or normalized trade

relations with China is the best, and almost certainly the only, approach which will allow the U.S. to be an active participant in the long-term liberalization of China. There simply is not another approach that offers any success in that regard, in our opinion.

Second, it is clearly in the interest of American business, the American economy, and the U.S. Government to normalize the trade relations with China, as we have done with virtually every other country in the world.

Third, the politicization of this extremely important economic issue, and I include in that in a similar vein the defeat last year of the fast-track legislation movement, primarily because of domestic constituent issues.

In the case of China, we risk \$80 billion worth of trade relationships, hundreds of thousands of U.S. jobs, and the viability of billions of U.S. dollars already invested in China.

So I will be happy to answer any questions that you might have at the conclusion of the remarks of the panel.

Senator MOYNIHAN. Mr. Chairman, could I quickly say that the fast track has not been defeated yet.

Mr. FREDERICK SMITH. The unfortunate delay of fast track last year, Senator. I stand corrected. I agree. I understand.

Senator MOYNIHAN. The bill was taken down.

The CHAIRMAN. And I am happy to say that fast track was passed through this committee, and on the floor I think there was a vote overwhelmingly in favor. But we share your concern about that.

It is now my pleasure to call on Mr. Mike Jendrzejczyk of the Asia Division of the Human Rights Watch.

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

Mr. JENDRZEJCZYK. Thank you, Mr. Chairman, for inviting me to testify, and also for your wisdom in having two Polish Americans testify before you today, not just one. [Laughter.]

This hearing is especially useful and timely coming right after the President's trip to China. There is no question, as other witnesses have said, that this trip did make a difference in terms of the status of our relationship. Certainly for Jiang Zemin, this represented a cementing of his leadership position in China and, therefore, I think, gave him an enormous propaganda boost.

On the other hand, I would give President Clinton high marks for effectively using the bully pulpit, the opportunities he had with President Jiang, not only in his press conference but in other public appearances, to stress the need for basic human rights, more open and accountable governance, and the rule of law for China to continue its economic and social development.

Even if some of the President's comments were edited, as they certainly were in the official press, I believe that this message could have some long-term implications, encouraging those within China who are trying to bring about change, and perhaps even overturning the official verdict on 1989.

However, I think it would certainly be premature to say that an era of glasnost has arrived in China. I certainly think that is not the case.

I would like to say a bit more about the summit, but I also want to comment briefly on the subject of trade relations, which, of course, is the main subject of the hearing today.

We believe that trade and economic engagement can be a catalyst to promote greater openness and change within China. However, commercial relations alone will not automatically produce results in terms of basic political reforms or human rights improvements, and I do not think anyone here on this panel—at least, I would hope not—would try to make that argument.

We also believe that it is clearly in the U.S.'s interest to have access to China's market and investment opportunities, but we believe the U.S. needs to go beyond dialogue and simply engagement to exert pressure on Beijing to comply with its international obligations on trade and human rights, and other matters.

Secretary Albright, in her comments this morning, alluded to the fact that, yes, pressure is needed on the issue of trade, but she, however, did not address the issue of human rights in this same context.

We think that debate and dialogue, again, is useful, but it is not enough. In this regard, I think the annual debate over China's trade status, call it MFN or NTS, is a useful process to continue, at least for the time being. My organization has never called for the revoking of MFN. We have in the past supported efforts by Congress to link MFN renewal to specific human rights conditions.

Mr. Chairman, we believe at this stage, maintaining the annual renewal process can be a potential insurance policy. Let me explain what I mean by that. China's very ambitious economic reforms pose real risks and trade-offs for the Communist Party as they try to maintain political control and maintain social stability. Yet, it is precisely these economic reforms that gives the party any legitimacy.

As President Clinton indicated in his speech in Shanghai last week, the restructuring of these same enterprises is resulting in the layoff of millions of workers and disrupting what has been the social safety net in the Chinese system.

There is, in fact, growing evidence of unrest and mounting social tensions, as well as continuing rampant corruption which the authorities have yet to control. I believe there is no way to know at this stage whether, in fact, the government will maintain stability by allowing greater openness and peaceful expression of dissent, or whether it will crack down.

For this reason, I think the annual trade debate can function as a check, subjecting China's behavior and the administration's policy to annual scrutiny by Congress, the media, and the executive branch.

I would like to say a bit more about the summit. We very much share your sentiment, Mr. Chairman, in your opening comments that the summit was important in terms of atmospherics, but disappointing in terms of concrete results. Secretary Albright, in response to questions, basically acknowledged that on the key issue

of human rights, and I would say also Tibet, there was no concrete outcome or results.

I think this is partly because of the strategy the administration used in preparing for the summit. That is, they refused to lay out any precondition, agreed to the formal date of the summit, then sent one delegation after another to Beijing, including Secretary Albright and Sandy Berger, to try to get some last-minute concessions from the Chinese. Thus far, there has been no indication that such concessions are forthcoming.

I think this was a basic mistake in the way the summit was approached. I think the administration should have agreed, in principle, to such a visit, but not set the date until it was clear that there would be tangible and concrete results.

Having said this, I was disappointed that the Secretary did not indicate at all this morning how the administration intends to move forward, in particular, on three or four issues that the President himself highlighted in his debate with Jiang Zemin.

One, freedom of expression and association and arbitrary detentions. Two, the very dire situation in Tibet. Three, freedom of religion. We do not know what the administration intends to do next, whether it has any strategy to make concrete, tangible progress on these very key issues.

Finally, Mr. Chairman, a couple of other issues related to post-summit policy towards China. I was a bit surprised that the administration did not announce the lifting of any of the remaining 1989 sanctions, as was widely expected.

I think this may indicate either that there was no progress whatsoever in the private talks, or that possible resumption of OPIC and TDA programs could be used as a carrot to reward China if, in fact, some positive steps are forthcoming.

I certainly believe that, absent concrete and significant progress on human rights, including on the key issue of worker rights, we should not consider resuming either of those two trade programs.

Finally, Mr. Chairman, Jurun Gee, the Chinese Premier who met with Mr. Clinton, will be coming to Washington, I believe, in October to speak at the annual meeting of the IMF and the World Bank.

We do not know if he has been formally invited to a bilateral meeting with the President and the administration, but I would hope, again, the administration would refrain from setting the date for such a meeting or formally issuing such an invitation until it is clear that there has been some progress on the human rights issues the President spelled out when he was in Beijing. Thank you very much.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Rabbi Schneier?

**STATEMENT OF RABBI ARTHUR SCHNEIER, PRESIDENT,
APPEAL OF CONSCIENCE FOUNDATION, NEW YORK, NY**

Rabbi SCHNEIER. Mr. Chairman, Senator Roth, my senior Senator and friend, Senator Moynihan, and members of the Senate Finance Committee, thank you for giving me the opportunity to share

with you and the members of the Finance Committee highlights of the Report on Religious Freedom issued by Archbishop Theodore McCarrick of Neward, Dr. Don Argue, the former president of the National Association of Evangelicals, and myself, on our three-week trip to China and Tibet in February 1998. I respectfully ask that the full report be included in the minutes of this meeting.

We covered Beijing, Shanghai, Nanjing, Changdu, Lhasa, Tibet, meeting with religious leaders of all denominations, including the top leadership of government.

Our delegation was appointed by President Clinton and invited by President Jiang Zemin during last October's summit meeting in Washington. For the first time in the history of China, three American religious leaders met the head of State and the highest officials of government, not to discuss trade or the economy, not to talk about strategic and geopolitical cooperation. Our agenda with President Jiang had a specific purpose: it focused on religious freedom for all believers in China.

We are told that over half a billion Chinese watched this encounter of one hour and 5 minutes with the President of China on the 7:00 evening news on Chinese television.

Why did the President of China bother with three American religious leaders? Increasingly, there is realization that the bilateral relationship between our two countries is multifaceted. That includes religious freedom and human rights that are of much concern to the American people.

May I read you a message that I received from President Jiang, conveyed to me by the Chinese ambassador Li Xiojing. "The visits referring to the mission of the three religious leaders was, indeed, an important milestone for bilateral relations and will contribute significantly to deeper understanding and broader cooperation between the Chinese and American people."

We were also pleased to learn that the 78-year-old Catholic bishop, Xenxing Mu, who is very much on top of our list that we submitted to the Chinese leadership, and the Protestant leader, Xao Fang, were released. They were on top of the list of 30 religious leaders that are being held in detention.

On the eve of the historic trip to China, President Clinton met with us to review our findings and recommendations. After the meeting addressing the media, President Clinton stated, "Their insights will certainly have a big influence in my activities and conversations as I prepare to embark for China." This meeting took place in the Oval Office in Washington on June 18, 1998.

Senator Moynihan knows that, as founder and president of the interfaith Appeal of Conscience Foundation, I have worked for over 33 years on behalf of religious freedom and human rights throughout the world.

Since the foundation's first mission in China in 1981, I have focused on the issues of human rights, religious freedom, and the building of bridges between the religious communities of our two nations. I am a holocaust survivor and personally experienced religious persecution 60 years ago in my birthplace, Vienna, Austria.

This sad encounter with man's inhumanity to man is deeply etched in my mind and caused me to make human rights and religious freedom my life's work. I am, therefore, proud that concerns

for human rights have become very much a part of the United States' foreign policy. That was not always the case, certainly not 60 years ago.

President Clinton and Secretary Albright have used this Presidential visit to both publicly and privately enunciate our commitment to human rights as part of American policy.

Men and women of all faiths found encouragement in President Clinton's address in the Chongwenmen Christian Church in Beijing, which the three religious leaders visited in February, where he described the American and Chinese people as brothers and sisters, as children of God.

In Shanghai, you heard from Secretary Albright about her meeting, the round table discussion with the religious leaders. I joined the Secretary at that meeting, with representatives of Buddhism, Taoism, Islam, Catholicism, Protestantism. And, according to official figures—which are low, by the way—which number about 100 million, we learned about the enormous growth, and I want to state growth not only in the official churches but in the non-registered underground churches, that has taken place. We sought clarification on issues affecting the religious communities.

I am sorry to say that Judaism, with a long history in China, still has not been recognized as an official religion in the People's Republic of China, and I made a personal appeal on this subject to the President of China and the top leadership.

First Lady Hillary Rodham Clinton, Secretary Albright, and Chelsea Clinton joined me in visiting the newly restored Ohel Rachel Synagogue in Shanghai, built in 1920, and not in use since 1952, and participated in my presentation of a Torah scroll, a gift of my synagogue, Parki Synagogue in New York, for use by the expatriate Jewish community of Shanghai, that numbers about 200 expatriates, many of them American business people, diplomats, and journalists.

It is noteworthy that in February, when I visited the synagogue, it was still used for storage and was a warehouse for the board of education of Shanghai. Thanks to the commitment of Mayor Shushong Guangdi of Shanghai, it was beautifully restored at the expense of the Shanghai municipal government and declared an historic landmark.

Living in the United States, it is difficult to understand the difference between registered and unregistered churches and the whole concept of reeducation for clergy detained because they are not part of a sanctioned church.

I must stress, the intrusion of government into religious life is not acceptable in our system of democracy. We note, however, with satisfaction the decision of the Chinese Government to sign the United Nations International Covenant on Civil and Political Rights, which includes guarantees for freedom of religion and assembly.

We encouraged the Chinese Government to normalize relations with the Holy See and to find a peaceful resolution in Tibet by pursuing a dialogue with the Dalai Lama.

During my seven visits to China, the first in 1981, I have seen the transformation that has taken place, not only in the skylines of cities, but in the society in transition from the ravages of the cul-

tural revolution, to economic reform, greater social openness, and increasing contact with the outside world. I remember in 1981, the churches and temples were warehouses and used for movie theaters, and were used for school facilities.

I remember meeting with priests and ministers who spent years in the countryside during the cultural revolution. The rule of man is slowly giving way to the rule of law, however, standards in implementation still vary in different cities in regions.

Supreme Court Justice Anthony Kennedy will travel to China next year to advise in the creation of a legal system that respects individual rights, and Professor Paul Gwertz and his legal team at the State Department are pursuing the rule of law initiative with their Chinese counterparts.

In 1981, China had only 100 lawyers. Today, there are 10,000 for over 1.2 billion people. I think we can export a few from the Wall Street legal profession.

What is the best way to deal with China, an emerging superpower? With this, I conclude. The relationship between our two great nations require a web of engagements in economics, trade, security, and non-proliferation, and, yes, religious rights and religious from.

This complex, multidimensional relationship, I believe, should include normal trade relations that deserve bipartisan support, I was going to say of MFN, but Senator Moynihan, it is bipartisan support or NTR. The American and Chinese people will shape the destiny for peace and security in the 21st century.

A constructive dialogue that encompasses religious freedom and human rights does not operate in a vacuum. The deeper the involvement, the broader the engagement, the easier it is to tackle the more difficult issues that divide us. The potential rewards of freedom and democracy unite us all. Thank you so much.

The CHAIRMAN. Thank you, Rabbi Schneier.

[The prepared statement of Rabbi Schneier appears in the appendix.]

The CHAIRMAN. Now it is my pleasure to call on Dr. Smith.

**STATEMENT OF WARREN SMITH, PH.D., INDEPENDENT
SCHOLAR, ALEXANDRIA, VA**

Dr. WARREN SMITH. Chairman Roth, Senator Moynihan, I thank you for this opportunity to speak in regard to Tibet and U.S.-China relations.

The primary focus with current Chinese policy in Tibet is economic development. However, China's economic development policies in Tibet benefit Chinese far more than Tibetans. The Chinese state derives far more from the exploitation of Tibet's resources than it spends on economic assistance to Tibet.

The policy of economic development is accompanied by repression of all Tibetan opposition, restriction of all aspects of Tibetan cultural autonomy, and an opening of Tibet to an influx of Chinese.

Restriction on Tibetan autonomy have increased during the 1990's. The limited degree of cultural and religious autonomy that Tibetans were allowed during the 1980's led to a dramatic revival of Tibet culture, religion, and nationalism.

What the Chinese learned from this experiment with Tibetan autonomy, was that all aspects of Tibetan culture had nationalist content. Therefore, Tibetan autonomy had to be restricted in order to prevent the growth of Tibetan nationalism.

China's economic development strategy in Tibet has resulted in a large influx of Chinese to Tibet. Today, the private economy of Lhasa and other Tibetan cities is substantially in the hands of Chinese migrants. Chinese colonization, combined with the repression of Tibetan culture, threatens the very survival of a separate Tibetan identity.

Tibet remains under the tight control of Chinese Communist Party officials, backed up by the public security police, the People's armed police, and the People's Liberation Army.

Tibetans continue to be arrested, tortured, and sentenced to lengthy prison terms for the slightest expression of opposition to Chinese rule. Monks and nuns are forcibly expelled from monasteries and nunneries for refusing to denounce the Dalai Lama. Many flee to Nepal and India to seek religious freedom.

The development of the colonization policy in Tibet is financed by China's rapid economic growth. Therefore, it is tempting to favor any policy on the part of the United States that would restrict the growth of the Chinese economy.

China certainly deserves condemnation for its human rights practices, including what the Dalai Lama has characterized as its cultural genocide in Tibet.

However, we have just witnessed, during President Clinton's visit to China, evidence that American engagement with China can have a positive influence on China's internal politics, perhaps even including its policy towards Tibet.

The joint press conference held by the two presidents exposed the Chinese audience to a free discussion, not only on the forbidden subject of Tiananmen, but the equally sensitive subject of Tibet.

Jiang Zemin's apparently unscripted remarks elevated the Tibet issue to unexpected prominence. However, it was not the substance of Jiang's remarks that were so significant, but the great length to which he went to defend Chinese policy in Tibet.

Jiang made no concessions on the issue of negotiations with the Dalai Lama. In fact, he imposed the entirely new condition that the Dalai Lama should recognize that Taiwan is a province of China.

In his reply, President Clinton corrected Jiang that his impression of supporters of Tibet were solely or predominantly religious followers of the Dalai Lama. He pointed out that Tibet was not only a religious issue, but also, and more fundamentally, a political issue.

The result of this open discussion of Tibet was not any obvious progress in the resolution of that issue. Only time will tell if Jiang's remarks will result in a Chinese initiative on Tibet.

However, those of us who are supporters of Tibet are heartened by the prominence that Tibet was given by both the Chinese and American sides during President Clinton's visit.

China hopes to be accepted as a responsible world power. However, China is finding that its policies in Tibet are hindering its acceptance by the international community. China is, thus, faced with a dilemma. It is fearful of allowing any actual autonomy in

Tibet, but it feels the need to respond to international demands that it allow such autonomy.

American engagement with China has proven its effectiveness in raising the issue of Tibet to a higher and more public level. An open China is far more vulnerable to international influence than a closed China. It is in the interest of the United States that the policy of engagement with China should continue.

This does not mean that all criticism of China should cease. Instead, engagement offers an opportunity to achieve greater influence by means of constructive criticism. The strategy in regard to Tibet should be to convince China that it is in its own interests to resolve the issue by allowing a greater degree of Tibetan autonomy. Only international criticism can convince China to do so. Only China's concern for its international reputation can overcome its fear of allowing Tibetan autonomy.

In closing, I would like to emphasize that the situation for Tibet is dire. China has a strangle hold on Tibet and its assimilated policies and processes are fully deployed. China's development policy in Tibet is benign in appearance but potentially destructive of the remnants of Tibet's autonomous existence. An American policy of engagement with China is no guarantee for the survival of Tibet. However, it is better than a policy of isolation.

The United States should support China's economic development and it should support development in Tibet. However, economic development in Tibet should benefit Tibetans. China's policy in Tibet not only does not benefit Tibetans, but it threatens their national and cultural survival. U.S. policy should emphasize Tibetans' rights to economic, as well as cultural and religious, autonomy. Thank you.

The CHAIRMAN. Thank you, Dr. Smith.

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

The CHAIRMAN. I find it very interesting that you five gentlemen, despite your diverse backgrounds, all favor continued engagement. You seemed to see that as an important tactic.

I would like to ask the two business leaders a question with respect to WTO negotiations. In your case, Mr. Micek, with respect to agriculture, and Mr. Smith, you represent a very effective service organization. What are the principal objectives in your area of activity as far as negotiations with China on accession, and what progress have we made, if any, in achieving those objectives? Mr. Micek?

Mr. MICEK. Thank you, Mr. Chairman. We would hope to improve market access, particularly in the case of agriculture. Earlier this morning, we heard Senator Conrad talk about the problems in the Dakotas.

One of the problems that the United States has in agriculture, while it is true we are exporting significant quantities of grain to China, we really should be exporting more. So, market access is important.

The other thing, of course, with WTO accession would be a lowering of tariffs. That would also make our products much more competitive. In terms of progress, progress has been painstakingly slow. Markets in grain are not open internally in the country. It

is definitely a monopoly. It is very difficult for foreign firms to operate within the country.

But, nevertheless, as I indicated, we have presence there and we find that, with presence, being on the ground, learning how they operate, we have an opportunity to affect things a lot better than we have by not being there. But we look forward to better access through WTO.

The CHAIRMAN. Mr. Smith?

Mr. FREDERICK SMITH. Well, Senator, FedEx activities in China really have three aspects to it: the aviation services, the freight handling services, and road transport.

Let me confine the response that I have to the ground operations, since aviation services are not a part of WTO, they are done on the basis of bilateral aviation agreements with various countries around the world.

We are very hopeful in that regard that there will be very soon an expansion of the aviation opportunities between the United States and China. In fact, China has offered to expand those and it is the United States that has not taken them up on it.

But to give you some of the examples of some of the issues that would have to be addressed, at present, foreign-owned companies are not allowed to conduct customs brokerage and clearance, ground transportation, warehousing, consolidation, forwarding, or related services. Obviously, these functions which lie at the heart of an integrated air express carrier's operations all have to be conducted through joint ventures or agents.

A company like FedEx, which is carrying these very high-value and high-technology products to and from the United States is then precluded from exercising custodial control over the transportation services.

There are all sorts of Chinese Government restrictions as to the rules applying to joint ventures: you are required to invest a certain amount; you can have a term that does not exceed a certain amount; you cannot have a majority; all the investment decisions, the sales forces, and so forth, are controlled by Chinese interests.

So those types of things have to be changed, in our opinion, to set the stage for China's entry into the World Trade Organization. It is a huge country. It enjoys many, many benefits in the United States, and access to our market.

Unlike times past, there are not national security considerations which prompted the United States to, in essence, unilaterally open up its markets to Europe and Japan during the Cold War, and issues like this in the service sector are the real-life bureaucratic impediments to conducting business in China.

The CHAIRMAN. Both of you gentlemen head up organizations involved in trade. You both spoke about the importance of fast track. The fact is, there is considerable protectionism to be found in this country. I wonder what advice you have to give us as to how to make the public, and members of Congress, better aware of the importance of trade.

Mr. MICEK. Well, I think throughout this morning we have heard various aspects of trade. But, really, I find it very ironic that the U.S. economy is cruising along at the speed that it is today, when approximately one-third of the growth that has occurred in the last

5 years has been because of trade. Yet, we have such a difficult time in convincing the American public of the meaning of trade to us.

I would like to take this one step further. I really would like to suggest, in the case of both NTR, but also fast track, in the case of NTR it would really be helpful, I think, if we could get away from the annual debate to make this such a political issue.

We really cannot be considered a reliable supplier when we go through this annual debate. This has not come out today. My company, when I look to a supplier, I need to have someone that I can rely on.

The truth of the matter is, with China, where food is so important to them and it is really considered part of their national security, the U.S., at best—at best—can be considered a residual supplier. Now, that is not healthy for the Senator's constituents in the Dakotas. So, that is one aspect.

On fast track, as a leader of the world's largest economy and we are promoting open and free trade, we just simply have to do a better job of convincing the public. My company has done with that with a program we called Trade Works; ECAT is doing the same thing. It is a basic, grassroots education program aimed at educating our employees, but also, hopefully, to make our students in our schools more aware of the importance of trade.

The CHAIRMAN. Thank you. Mr. Smith?

Mr. FREDERICK SMITH. Well, Senator, of course, this is a huge question. The successful resolution of it largely will determine, in my opinion, whether the United States continues to enjoy economic growth in the future.

In 1970, about 10 cents out of the dollar of all economic activity in the United States was involved in international trade; today it is about 25 cents out of every dollar.

International trade is growing at a rate of about three times the rate of GDP growth any place in the world. We have got, what, 260 million people here in the United States, 300 some odd million, close to 400 million, in North America. Obviously, there are five billion people elsewhere in the world. So, even a liberal arts major like me can figure out, if you want to do business, there are a lot more customers out there than there is here.

I think the business community has, in large measure, failed on this issue by not getting out at the grassroots level and educating the elected officials, primarily through our employees, about what a huge benefit international trade has been to the United States.

One of the most important initiatives that has taken place with the delay of the fast track vote, was the recognition in the Business Round Table that it was no longer acceptable or a business to sit by and sort of let the debate take place, and then come in and hopefully the expertise of the business executives save the day. As a consequence, under the leadership of Don Fiets of Caterpillar, the Business Round Table increased by three-fold its dues.

As part of the increased funds that the BRT has, is a significant educational effort that is now going to be done on a Congressional district by Congressional district basis to educate Congressmen on the incredible importance of the United States having fast track

authority and continue to push on the world stage for a more liberal trade regime.

So there are many efforts under way in business, and there are others at the Chamber and elsewhere. But that is just one example of where business recognized that it does have a responsibility to educate the elected representatives and the public at large about the huge benefits of international trade.

The CHAIRMAN. Thank you, Mr. Smith.

Mr. Jendrzejczyk, in your opening comments you made a statement about the benefit of annual debate on MFN. You have heard some of the others say, from a business point of view, it is not helpful. But I wonder, has it kept dissidents out of prison or blunted Chinese repression of home churches?

Mr. JENDRZEJCZYK. Do you mean the annual debate, Senator?

The CHAIRMAN. Yes, that is correct.

Mr. JENDRZEJCZYK. Well, first of all, we would not be having this hearing today if there was not an annual debate, so from my point of view, that is a step forward right there.

I mean, we are having a debate about U.S.-China policy, conditions in China, the relationship, and so on. I would say that during the time when MFN seemed to be really at risk, when there was a bipartisan consensus in favor of human rights conditions on MFN renewal, this was the time when the President issued his executive order, beginning in May 1993 to May 1994.

I think that was the time of maximum leverage, when China did release political prisoners, begin negotiations with the international community, the Red Cross, issue white papers on human rights which gave some legitimacy to actually having a debate or discussion about human rights. They took at least some steps. I think they could have done much more, but I frankly did not think the administration used that leverage very effectively.

Since then, the administration has not only, as you know, backed away from using MFN or trade at all as a form of leverage, but it has even dropped an annual resolution in the UN Human Rights Commission in Geneva, which is the only multilateral forum within the UN system where China can be accountable to the same human rights standards as the United States or any other country.

So I guess I am concerned, Senator, about the combination of these two decisions by the administration, not only to move away from using the trade leverage, but also to drop even the UN Human Rights Commission debate.

I am concerned that, in light of those decisions, China does feel that it can do far less in order to meet the administration's minimal expectations for human rights improvement. So, it will release a couple of dissidents, as Secretary Albright said, but send them into exile.

It will allow delegations to visit. A European troika delegation just visited Tibet. Yes, they can have discussions. They are very tightly controlled. That is even very tightly controlled. But very little changes on the ground in terms of Chinese practices.

I am afraid the administration is being brought in by this idea that dialogue alone, talk, that is, but not action, which is the Chinese Government's now-preferred methodology, is sufficient. I just do not think it is.

The CHAIRMAN. Thank you.

Frank?

Senator MURKOWSKI. Thanks very much, Mr. Chairman. I think what we have seen today with the vote of 96 to 2, is the issue of MFN, normal trade relations. That is behind us, at least for the year. I think the point was brought up by Mr. Micek relative to, why can we not extend it. As I indicated in my opening statement this morning with Madeleine Albright and Ambassador Barshefsky, I think 18 months ago we were almost there.

But, depending on the political situation and allegations relative to contributions coming in from the Chinese military, the Chinese Government indirectly, Lorall-Hughes, these things come in and, as a consequence, is very difficult for members to say, all right, let us make it permanent, because what other leverage do we have? We can go down that rabbit trail for some time and discuss that.

But the point I want to make, and the only question I want to ask, is the trade imbalance. Our mutual trade is \$75 billion, or thereabouts. But currently, \$13 billion are our sales to China, and about \$62 billion are China's sales to the United States, and it is getting worse.

We make our pitch, and I know the grain business is significant, it is a big-ticket item. The service business, Mr. Smith, is a big-ticket item.

But you, as vice chairman of the U.S.-China Business Council, how do you address, if you will, this growing trade imbalance, and how do we get this message across, because it is going the wrong way too fast, it is going to spoil our politics?

Mr. FREDERICK SMITH. Well, my view about that, Senator, and of course we would like to have more balanced trade because, as you know, our airplanes that go through that big hub in Anchorage, we have got to fill them up going both ways, so we like to have trade going both ways.

My take on this is pretty simple. As I said a minute ago, the United States, during the Cold War period of time, beginning with the Marshall Plan, in essence, made a bargain with a lot of countries around the world that we would open our markets and not require them to open theirs.

By that, we reinvigorated Germany and Western Europe. We got an unsinkable aircraft carrier and an ally in Japan, and so forth. But, having spent many, many years in visits to Japan and so forth, the fact that anybody could say that they do not have enormous trade barriers, many of them subtle and many of them not covered by the WTO framework, quite frankly, you have to be just totally ignorant of the situation there.

Of course, people that have watched that mercantilism over the years and think that it is a successful formula, and I would say that this includes China, have simply taken a page out of the book and they press the United States to open our markets without reciprocal requirements to open theirs.

But I think today, in the absence of these Cold War imperatives, the United States is taking a tougher line. That is why the United States has not acceded to China's entry yet into the WTO, which we all support and want.

But it is essential that China, with a market of its size, not be treated as a very small, totally impoverished country or developing country, which is the model that they want. They are a great power, even today. They need to step up and come into the WTO with a much more open market to buy our goods. Absent that type of approach, I think that the trade deficit that the United States experiences will continue to get worse.

We simply have to be absolutely adamant that, if we are going to open up our markets, we have to have access to their markets. Things such as I listed in my remarks a minute ago have to be solved, because those are not problems for Chinese entities that want to operate in the United States. It is just that simple.

Senator MURKOWSKI. Thank you, Mr. Chairman. I appreciate your accommodation.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Sir, might I first just welcome Mr. Micek and the Emergency Committee for American Trade. There was a time about 10 years ago when I was wondering, why are you still around? You won your argument. The trade agreements came regularly and the extension of fast track came regularly and seemed like this was an issue behind us. Thank God, you stayed in business because we do have a genuine problem.

The Congress, and not the Senate, and certainly not this committee under Senator Roth's leadership, we are fine on fast track, but the other body is not and the administration has lost its nerve, I am sorry to say. If you heard me this morning, when Ambassador Barshefsky allowed as how we did not have the votes, I said, well, if you announce you do not have the votes, you do not have them, that is pretty sure.

This imbalance in the trade deficit, it is not nearly as bad a phenomenon as we think. To economists, it represents a shortfall in savings in this economy. But do not try to explain that any more than trying to explain that Most Favored Nation does not mean you are our most favored nation.

I am glad to hear the Business Round Table is going to get out and start doing the kind of work that ECAT has been doing all these years. May I respectfully suggest that you do it on a bipartisan basis?

I was twice a member of a subcommittee or cabinet of a Republican President, and I was always being invited to meetings with the Business Round Table. I have been 22 years on the Finance Committee and have never been invited. And, please, I am not looking for an invitation. [Laughter.] Try to move it either way over on the House side, because the problem, frankly, is the Democratic members of the House.

It is incredible that we should repudiate a tradition that begins with Cordell Hull in 1934, in Tennessee, in the depths of the Depression. Let us not lose our nerve, let us trust in ourselves. There is much to be done.

I would say, Mr. Chairman, the most striking thing of our panel is that, for the first time, we have had three witnesses talk about Tibet, from very different origins, you might say. I would say to the Human Rights Watch, Mr. Jendrzejczyk, thank goodness you are

watching and Tibet is in your sights. I mean, you speak very bluntly. You say, human rights conditions in Tibet remain grim.

My dear friend, Rabbi Schneier, on behalf of the U.S. religious leaders delegation, you could not have been more specific in this regard, too, the fact that religious repression in Tibet is near total. You went there and you asked about it.

As you say, "We spoke with two Buddhist nuns in the prison and later sought their release. We also called to the attention of prison authorities in Tibet the allegations that torture and human rights abuses are present in Tibetan prisons. The warden called these allegations stories." They are horror stories, and they are true.

Dr. Smith, you are one of the Nation's authorities on this matter. I think you spoke very carefully and thoughtfully. This is a reality, and it is a singular reality in China that there is this one autonomous region where life is just horror.

Yet, I think Dr. Smith, prior to the President's visit and that exchange, you would not have encouraged very close trade relations with the U.S. and China, but now you do. We think it is a possibility of engagement, that engagement can lead to some change in Tibet.

Dr. WARREN SMITH. No, Senator. I think I have always been in favor of engagement with China, as is the Dalia Lama. He has always favored—

Senator MOYNIHAN. That is right.

Mr. JENDRZEJCZYK. If I could just add, Senator, I agree with your comments. I guess what I find striking in the way China is handling the Tibet issue right now, is that clearly it is trying to signal to the international community that it wants to be more flexible, but at the same time is very worried, of course, about maintaining security and sovereignty and so on. But even in this environment, given their concern about their international image, I think there are a few things that the U.S. and other governments could do.

For example, getting greater access to Tibet on a regular basis by UN human rights monitors and foreign journalists, getting access to the Panchan Lama, the 9-year-old child which Rabbi Schneier's delegation, the Europeans, and others have been given very conflicting information about his whereabouts and status, and, I would add, ending the reeducation campaign which other witnesses referred to in the Buddhist nunneries and monasteries.

I mean, those are very concrete steps that would also be sort of confidence-building measures, I think, that China could be urged to take. But it is going to need a lot more pressure, I think, beyond what has happened thus far.

Senator MOYNIHAN. If they recognize Buddhism as the first of their recognized religions, then they ought to stop burning monasteries in Tibet.

Rabbi SCHNEIER. Well, they make a distinction between Buddhism in general and Buddhism in Tibet.

Senator MOYNIHAN. Ah-ha.

Rabbi SCHNEIER. That has to be understood. What they are worried about mostly, is secession. This leadership is very much concerned about the unity of China and control. That is what it is all about. Therefore, we had meetings with His Holiness the Dalai Lama, and he was very clear.

That is why we strongly made that recommendation to President Jiang Zemin. Your best bet is to talk to the Dalai Lama, because he is not advocating political independence. He is not advocating political independence, he is speaking in terms of a cultural autonomy at this point.

Mr. JENDRZEJCZYK. But, Senator, it is even a broader problem of religious freedom, and Senator Roth asked about this. The reason why this business of requiring all religious bodies and groups to register with the state is such a problem, is that it is seen as a form of controlling these groups because of the concern of foreign influence, subversion under the guise of religious freedom. This is what has made the Chinese Government very paranoid about the growth of religious activity of all kinds, Buddhists, Taoists, Christians, and others.

Senator MOYNIHAN. I see that recognition means registration.

Mr. JENDRZEJCZYK. Precisely.

Senator MOYNIHAN. Dr. Smith, you probably agree with that. I did not know what Rabbi Schneier said. I am always learning from Rabbi Schneier. Well, he is a teacher, rabbi.

Dr. WARREN SMITH. I think the problem, in terms of Chinese negotiations with the Dalai Lama, is not that the Chinese do not understand that the Dalai Lama has really given up the claim to independence, it is that China fears not only independence, but they fear autonomy.

They fear autonomy inevitably leads to independence, and they have got a point. Autonomy perpetuates Tibet's separate cultural, religious, and national identity. Therefore, it perpetuates Tibetan nationalism, it perpetuates Tibetan separatism.

So the Chinese have their excuses for why they will not talk to the Dalai Lama, but the real reason is because they fear autonomy. Talking with the Dalai Lama implies that they might actually have to make some agreement on autonomy. They probably do not really, at this point, want the Dalai Lama to return to China because he would be a big problem.

Senator MOYNIHAN. But in the past, the Chinese communists indicated that they would accept autonomy.

Dr. WARREN SMITH. Well, autonomy means one thing in their system. What the Dalai Lama would demand would be quite different. At the present time, they are not allowing that and they do not seem to be willing to allow that.

Senator MOYNIHAN. Well, I think we want to make this a part of our agenda, too, Mr. Chairman, if I can say in terms of this continuing engagement. My time has expired, but I cannot thank you all enough. It has been wonderful.

The CHAIRMAN. It has been an excellent panel and we appreciate your taking the time to join us. Thank you very much, gentlemen. The hearing is adjourned.

[Whereupon, at 1:05 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MADELEINE K. ALBRIGHT

Chairman Roth and Members of the Committee, it is always a pleasure to appear before you, as I did just three weeks ago in support of the African Growth and Opportunity Act. I am grateful to be invited back so soon to testify, along with my colleague Charlene Barshefsky, on another matter of great importance to American leadership and prosperity. The question of whether to continue most favored nation, or normal, trade relations with China has been debated exhaustively and repeatedly in recent years. Each year, the balance of opinion has been to support its extension. The case for doing so now is stronger than ever.

For today, we face a financial crisis in Asia whose repercussions continue to deepen and spread. And the President's recent trip has underscored the major role that U.S.-China relations will play in determining future stability, prosperity and peace across Asia and around the world.

There is no greater opportunity—or challenge—for U.S. foreign policy than to encourage China's integration as a fully responsible member of the international system. Maintaining normal trade relations reflects our commitment to this goal. Obviously, continuing MFN does not mean we see eye to eye with the Chinese Government on every issue. As the President made clear in remarks directly addressed to and received by the Chinese people, we continue to have sharp differences on human rights and other issues. The question we face is how to deal with these issues in the way most likely to promote progress. The Administration believes the answer is to engage directly and frankly with the Chinese, making clear our values and motives, pressing our views vigorously but with respect for the Chinese nation.

Let me be clear, Mr. Chairman, our policy toward China is not based on rosy assumptions about how Chinese policies will evolve. But we believe there are many areas where U.S. and Chinese interests overlap, and that these provide a basis for increasing cooperation between our countries. And a basis for hope that the choices China makes will increasingly be the right ones.

Certainly, having spent a good deal of time with the Chinese people in recent days, I am persuaded that many of their fundamental aspirations mirror our own. Whether you live in San Francisco or Shanghai, you want to be part of a healthy and growing economy; you want to be secure from the proliferation of nuclear weapons and poison gas; you want the air to be clean and the water safe to drink; you want the authorities and the people alike to respect the rule of law; and you want to have a say in the decisions that affect your life.

Today, in the People's Republic of China, a remarkable process of change is under way. Clearly, that process has far to go, but the evidence suggests it has started down the right road.

Certainly, America's interests in Asia will be heavily influenced by China's own perceptions of its national interests and by the policies it adopts to advance them. By engaging President Jiang and other Chinese leaders in a strategic dialogue, President Clinton is doing precisely what a President of the United States should be doing. He is seeking to improve prospects for a secure, stable and prosperous Asia, while articulating American support for universal principles of freedom and human rights.

This approach is paying off, not through spectacular overnight gains, but through steady progress in a variety of areas.

The control of deadly arms is a solid example. As a result of our strategic dialogue, the People's Republic of China is increasingly moving from being part of the proliferation problem to being part of the solution.

During the past few years, China has joined the Nuclear Non-Proliferation Treaty and supported its indefinite extension; ceased testing its nuclear weapons and signed the Comprehensive Test Ban Treaty; became an original party to the Chemical Weapons Convention; agreed not to assist any unsafeguarded nuclear facilities, and to cut off all nuclear cooperation with Iran; and adopted comprehensive controls on nuclear and dual-use exports.

In recent weeks, China has played a significant and helpful role in trying to move India and Pakistan back from the brink of a nuclear arms race.

And the summit brought further progress. In Beijing, we reached agreement with the Chinese not to target one another with nuclear missiles—a step which reduces the risks of an accidental launch. And the Chinese agreed to actively study membership in the Missile Technology Control Regime.

Regional security is another matter on which U.S. dialogue with Beijing has enhanced cooperation and fostered progress. For example, the People's Republic of China has consistently supported the Agreed Framework that has frozen North Korea's dangerous nuclear weapons program, and has urged the North to continue complying with it. And the PRC is cooperating with us in the Four-Party Talks that seek to bring lasting peace to the Korean Peninsula. It would harm America's national security interests, Mr. Chairman, to jeopardize this cooperation by suddenly terminating normal trade relations. Needless to say, it would harm our economic interests as well.

Last year our direct goods exports to China totaled almost \$13 billion—up nearly 400 percent over the past decade. And we exported \$15 billion more to Hong Kong, much of it destined for the China market. Taken together, our sales to China and Hong Kong support some 400,000 U.S. jobs that pay on the average 13 percent more than non-export related jobs. Revoking MFN would invite retaliation and put these good American jobs and incomes directly at risk.

Moreover, such a decision would lessen the purchasing power of every American paycheck. For even assuming changed trade flows, it would force American consumers to pay more for goods subject to increased tariffs. And that, in turn, would add to inflationary pressures in our economy.

MFN revocation could come back to haunt us even more substantially by destabilizing currency markets in the Asia-Pacific. China has played a constructive role in promoting financial stability in the region, through direct assistance, multilateral cooperation, and participation in international financial institutions.

MFN revocation would set back China's own daunting program of market reforms and thus make it hard for China to maintain its contribution to Asian stability. And restricting Chinese exports to the U.S. might well cause China to devalue—with potentially dire consequences for its neighbors, for China's own stability, and for markets worldwide, including our own.

One certain victim of MFN withdrawal would be Hong Kong. That port handles almost 50 percent of U.S.-China trade, so it's highly dependent on normal relations. And while the reversion of authority to China for the most part has gone smoothly, Hong Kong has not been immune from the effects of the Asian economic crisis.

Hong Kong authorities estimate that losing MFN would reduce its trade by up to \$34 billion and its income by \$4.5 billion. Any retaliation by China would amplify this damage.

That is why Hong Kong officials—including democratic leader Martin Lee—are united in support of MFN renewal. Now, only a year after reversion, is no time to sabotage Hong Kong's economy, ignore its wishes, undermine its confidence and weaken its autonomy by revoking MFN.

Mr. Chairman, I will be frank in saying that, although our economic ties with China have grown, the size of our trade deficit is deeply troubling. It's too big; it's moving in the wrong direction; and it cannot keep growing indefinitely.

The deficit reflects, in part, our ongoing differences with China over market access issues. We want more open markets; they have been slow to respond. No fully satisfactory outcome can be achieved until China agrees to a commercially viable package of terms for joining the World Trade Organization. That hasn't happened yet, and while Charlene Barshefsky and our other negotiators have made some progress, the Chinese have not moved far enough. This is a tough nut and we're working hard to crack it. I believe, with the President, that we'll eventually get it done, because in the end it's very important to the Chinese, to us and to the world that China come in to the WTO on clear, strong and commercially viable terms. One thing is already clear, however. Revoking MFN is not the way to open up China's market. On the contrary, it would squander the progress we have achieved. And it would give a huge edge to our major competitors in Europe and Asia, all of whom have normal trade relations with China. The U.S.-China dialogue also extends to the environment and other global issues. This is important because China's demand for

energy will more than double in the next decade. It is already the second-largest emitter of greenhouse gases, the leading producer of ozone-depleting substances, and home to five of the world's ten most polluted cities. Clearly, China is a key to addressing global environmental problems.

That is why we were encouraged by Beijing's decision last year to eliminate the use of leaded gas. And that is why we're now increasing our cooperation on clean energy using American technology, working with the Chinese on a nationwide air quality monitoring network, and helping them find ways to finance economic growth without wasteful energy habits.

China's leaders now understand how important this is. By the year 2000, they plan to almost double the percentage of their nation's GDP devoted to environmental spending. Since the United States is the world's leader in environmental technology, it is both smart and right for us to work with China on behalf of a healthy global environment. Revoking normal trade status would close off these business opportunities and cripple our efforts to enlist China's support. With regard to Taiwan and the aspirations and interests of its people, I am convinced that both our dialogue with Beijing and the President's trip will have a positive impact. This is because a People's Republic of China that is hostile and suspicious of outside influences would be more, not less difficult for Taiwan to deal with. And a PRC that continues to be drawn into the international community—as it was by the President's trip, and as it would be by renewal of normal trading status—is one whose interests and identity will be more, not less consonant with those of Taiwan. In light of these truths, and Taiwan's burgeoning trade and investment with the PRC, renewal of MFN is in Taiwan's interest.

Obviously, Mr. Chairman, we remain very dissatisfied with the state of human rights and religious freedom in China. As I have said many times, engagement is not endorsement. But we also note that Wang Dan, Wei Jingsheng, and other prominent political prisoners have been released on medical parole or otherwise permitted to leave. China has signed the UN Covenant on Economic and Social Rights, and has announced it will sign the UN Covenant on Civil and Political Rights in the fall. Chinese officials have hosted visits by a delegation of U.S. religious leaders, as well as the UN Working Group on Arbitrary Detention. And the Chinese have substantially expanded their cooperation with us on the rule of law.

During the summit, President Clinton spoke out more openly and forcefully about human rights in China than any foreign leader has ever done in that country. And he did so not in one isolated instance, but in a series of very public appearances. The President's trip exposed hundreds of millions of Chinese to America's conviction that human rights are universal—and that human freedom is indispensable to any country's effort to compete in the world economy.

The summit turned the international spotlight on the issue of religious freedom as well. The President spoke at the largest Protestant Church in Beijing. In Shanghai, I had a fascinating discussion about government regulation of religion with Protestant, Catholic, Muslim, Taoist and Buddhist clergy. Here and around the world, prominent religious leaders have hailed the trip. The Philippines' Cardinal Jaime Sin, for example, told our Ambassador in Manila that he believed the trip could prove to be a turning point for religion in China. President Clinton also made protection of Tibet's unique religious, cultural and linguistic heritage a high priority. In his joint press conference in Beijing, he suggested face-to-face talks between President Jiang and the Dalai Lama. President Jiang responded in a more open manner than he had in the past. And the Dalai Lama applauded both President Jiang's reaction and the President's support, which he said "can be enormously helpful." Mr. Chairman, I have been a student of change in communist societies all my life, and I truly believe China has begun to change. Once the door opens to the kind of honest public debate about history and politics that the Chinese people began to experience two weeks ago, it becomes very hard for any government to seal it shut again. Once people see the power of the mass media to improve their lives by providing information and exposing wrongdoing, it becomes very hard to close their eyes again. And once people understand that another, freer way of life really is possible—that it exists elsewhere and that it works—it becomes very hard to deny it to them forever. It would be arrogant to suggest that our engagement alone can give rise to democracy in China; only the Chinese people can achieve that. But engagement can contribute to an environment in which the Chinese people have more access to information, more contact with the democratic world, and less resistance from their government to outside influences and ideas. Cutting off U.S. engagement would do nothing to encourage the forces of change in China. It would not free a single prisoner, open a single church, or expose a single Chinese citizen to a new idea. It might make some people feel good, but it would not advance either our interests or our principles. That would not be a productive approach. Nor would it re-

flect why so many of those who are fighting for greater freedom in China support renewal of MFN.

Mr. Chairman, MFN embodies America's commitment to open markets. As you well know, despite its name, it is the standard tariff treatment we extend to almost all nations—including many with whom we have major disagreements. We favor low tariffs because of our fundamental belief that open trade contributes to peace and prosperity. That's one reason why, ever since the United States and China normalized relations almost two decades ago, Presidents of both parties have supported MFN for China because it serves American interests.

Revoking MFN would rupture the U.S.-China relationship and set back progress. It would place at risk our own prosperity and our stake in a stable Asia.

Extending MFN will extend our influence, fortify our strategic dialogue and make further progress more likely.

Now more than ever, the choice is clear. I urge you, Mr. Chairman, and all the Members of this Committee, to support the renewal of normal trade relations with China. That is the right vote for the United States, for the people of China, for Asia, and for the future of us all.

Thank you, Mr. Chairman. That concludes my testimony. I would be pleased to respond to your questions.

**Testimony of Ambassador Charlene Barshefsky
U.S. Trade Representative**

**Renewal of Normal Trade Relations with China
Senate Committee on Finance**

July 9, 1998

Thank you, Mr. Chairman, for calling this hearing and inviting the Administration's comments on normal trade relations with China.

ENGAGEMENT WITH CHINA

Normal trade relations are the standard tariff rates, now averaging less than 4%, which we accord virtually all our trade partners. As the Finance Committee has noted, the term now used to describe normal trade relations -- Most Favored Nation status -- is a misnomer, since virtually all our trade partners now enjoy it.

Under the Jackson-Vanik Amendment, however, certain economies including China are ineligible for these rates unless the President grants an annual waiver. On June 3rd, 1998, President Clinton sent to Congress this waiver, extending normal trade relations to China for a year.

This decision reflects the President's broad strategy of engagement with China on the full range of issues our China policy must address. As the world's most populous country, and for the past decade its fastest-growing major economy, China will play a crucial role in the major international issues our country will face in the decades to come. In his address at the National Geographic Society last month, and during his State Visit to China, the President noted that these issues range from maintaining the peace in Korea; a united international approach to the nuclear tests in South Asia; controls on proliferation of nuclear, chemical and biological weapons and ballistic missiles; international crime and drug trafficking; pollution and climate change; human rights and religious freedom; a solution to the Asian financial crisis; and a more open trade relationship between our countries.

The United States' interest in these issues is best served by a secure, stable and open China. And the President believes, as have all Presidents since the 1970s, that we can best guarantee the evolution of a secure, stable and open China through comprehensive engagement. Engagement does not mean endorsement of Chinese policies. It is, instead, the best way to further our interests across this broad range of issues.

NORMAL TRADE RELATIONS

Normal trade relations are a fundamental part of engagement. Every President since the initial grant of normal trade relations in 1980 has renewed normal trade relations each year. And

the Clinton Administration is committed to working with Congress to make sure they are extended once again this year.

The renewal of normal trade relations is in our economic interest, since trade with China supports jobs and farm income in America. While significant trade barriers continue to hamper our exports to China, since we opened normal trade relations, our exports of goods to China have grown from an insignificant level to \$12.8 billion. China has become our sixth largest agricultural market. And together, exports to China and Hong Kong now support over 400,000 American jobs.

Normal trade relations, by helping to integrate China into the Pacific trading world, are also in our broader strategic interest. One example is China's response to the Asian financial crisis. Trade with the United States has helped to spur investment in China from Hong Kong, Taiwanese and Southeast Asian companies. This has given China a stake in economic stability throughout the region. Thus, China, for reasons of its own national interest, contributed to the IMF recovery packages for Thailand and Indonesia; and still more important, has resisted pressure to devalue its currency. President Jiang Zemin repeated China's commitment not to devalue during his summit meeting with President Clinton.

And normal trade relations serve American values as well as interests. By enabling us to trade with China, normal trade relations promotes human contacts, exchange of ideas, and the rule of law. Computers, fax machines, television satellites, cell phones, books, music and movies are more than goods and services crossing oceans and borders -- they are the exchange of ideas. They already allow Chinese university students to debate US-China relations and economic reform on university bulletin boards, contributing to grass-roots inquiry and debate. And trade agreements themselves are expressions of broader international values which we seek to promote worldwide: transparency, peaceful settlement of disputes and limits on the arbitrary power of the state.

EFFECTS OF REVOKING NORMAL TRADE RELATIONS: TRADE

By contrast, failing to renew normal trade relations would severely damage American interests and lessen our ability to promote basic values.

With respect to jobs and growth in America, the effects of ending normal trade relations would be severe. It would, in fact, amount to the severing of our trade relationship and our strategic political relationship. Technically, revoking MFN would raise tariffs on Chinese products from less than 4% today to a trade-weighted average of 44%. This would make American consumers pay approximately \$590 million more each year for goods such as shoes, clothing and small appliances. Manufacturers would see the cost of goods made with Chinese components rise sharply, reducing the competitiveness of our goods in domestic and international markets.

China would likely retaliate against US exports by increasing tariffs and other measures, endangering direct U.S. goods exports valued at \$12.8 billion last year, and services exports valued at \$3 billion in 1996 (the last year for which we have figures). This would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life. Their jobs and the export opportunities of their employers would go to Japan, Europe and other competitors.

Ending normal trade relations would also derail our bilateral and multilateral negotiations. China could, for example, reduce or end its efforts to enforce our intellectual property agreements, reversing our successful effort to build an infrastructure of laws and law enforcement in this crucial field. Negotiation on WTO accession would stop, creating uncertainty about the future evolution of China's markets. And much of the human contact between Americans and Chinese would end, limiting the exchange of ideas and values across the Pacific.

EFFECTS OF REVOKING NORMAL TRADE RELATIONS: BROADER ISSUES

The effects of ending normal trade relations with China would, however, go well beyond trade. Let me mention three areas of strategic concern to the United States.

First, ending normal trade relations would likely endanger cooperation with China in areas outside trade. It would call into question our recently developed good working relationship against drugs and international crime. It would make progress on human rights, as symbolized by the recent release of several well-known Chinese dissidents, very difficult or even impossible. And it could threaten cooperation in national security questions such as the four-party talks on Korea and missile sales in the Middle East.

Second, ending normal trade relations would badly damage Hong Kong. Hong Kong's economy is based on trade and services. As much as three quarters of US-China trade goes through its port. Hong Kong authorities estimate that ending normal trade relations would slash its trade volume by up to \$34 billion, and income by \$4.5 billion.

This would cause immediate suffering and long-term uncertainty among Hong Kong people about the territory's economic future, and lessen international business confidence in Hong Kong as a trade and financial center. And it would come at the worst possible time -- when Hong Kong's growth has slowed and its unemployment rate is at a fifteen-year high, and just after it conducted its first election as the Hong Kong Special Administrative Region, with the highest voter turnout ever in any Hong Kong election. That is why all leading Hong Kong figures, including Chief Executive C.H. Tung, Civil Service Chief Secretary Anson Chan, and Democratic Party leader Martin Lee, support normal trade relations.

Third, ending normal trade relations would deal a severe blow to our larger efforts to solve the Asian financial crisis. This crisis already affects our own economy, as we can see

through a drop in exports to the Asian region and layoffs at companies which export to Asia. The stability of the Chinese economy during this difficult period, and the efforts of both the central Chinese government and the government of Hong Kong to avoid devaluing their currencies, have helped prevent further deterioration. A disruption of the magnitude of revoking normal trade relations would introduce new financial and economic instability to Asia, with unpredictable but likely very negative effects in the region and on the American economy.

Altogether, then, the vote on trade with China is not on whether to endorse Chinese policies, but on whether to protect fundamental U.S. interests. The Administration thus strongly supports renewal of normal trade relations.

US-CHINA TRADE RELATIONS

As we look to the future, normal trade relations allows us to conduct a strategic trade policy aimed at ensuring that Americans can achieve the full potential benefits of trade with China.

These benefits are substantial. China's economy is already among the largest in the world, and such leading American industries as telecommunications, aviation, the services trades and professions, high-tech manufacturing and agriculture would benefit from better access to China.

At present, however, our exports are limited. The \$75.4 billion in bilateral US-China trade last year represents \$62.6 billion in goods imports from China and \$12.8 billion in goods exports from the United States to China. Service export figures are not yet available for 1997, but are quite small; in 1996 we exported \$3.1 billion in services to China while importing \$2.0 billion, resulting in a small surplus. The total trade deficit -- nearly \$50 billion in 1997 and on a trajectory for \$60 billion by the end of 1998 -- has many causes, most important among them shifts of production among the Asian economies and the strength of the U.S. economy. But trade barriers are also a factor.

China restricts imports through means including high tariffs and taxes, non-tariff measures, limitations on which enterprises can import, and other barriers. The result is a pervasive and multilayered web of trade barriers in China. And we use all the tools at our disposal -- our own trade laws, bilateral talks, regional and multilateral negotiations -- to eliminate them.

TRADE BARRIERS IN CHINA

Due to limitations of space and time, I will cite only some of the major types of obstacles we encounter in China. They fall into two main areas.

The first are broad structural impediments. These include transparency, where while we

have seen improvements, publication of laws and regulations is still incomplete, and sometimes offset by opaque customs procedures, administrative guidance and other procedures. Another is trading rights, where China restricts the right of individuals and companies to import and export. State-owned enterprises produce about 40% of China's industrial output, raising the question of subsidies and conflicts of interest for government bodies which both own and regulate enterprises. And government procurement presents a large set of issues, beginning with the fact that China has no laws or regulations on the subject.

The second area is that of more formal and familiar trade barriers. Tariffs, though reduced from an average of 42.1% in 1992 to 17% today, remain high. Non-tariff measures include non-transparent and WTO-inconsistent import licensing, quotas and other barriers. China's market for services remains largely closed. Agricultural tariffs remain very high, and in cases like meat can be prohibitive. China's phytosanitary and veterinary import quarantine standards (for example, regulations affecting citrus products and Pacific Northwest wheat) are often not based on science, unevenly applied and not backed up by modern laboratory testing techniques.

Our aim is, over time, to eliminate these barriers. In some cases we have found bilateral talks, including threatening or imposing sanctions when necessary, an effective way to address them. Let me discuss two particular instances: intellectual property rights and textiles.

U.S. TRADE POLICY: THE CASE OF INTELLECTUAL PROPERTY RIGHTS

In the past, pirated works have been common in China. Since our IPR Agreement in 1996, however, the scale of piracy has been significantly reduced. In 1995, American copyright firms reported losses of over \$2 billion from piracy of software, CDS and CD-ROMs, books, audio and videocassettes in China. They faced further losses in third markets caused by exports from Chinese pirates. Long and intense negotiations won agreements in 1995 and 1996 committing China to pass and enforce copyright and patent laws and shut down pirate operations. Since then:

- China has closed over 64 CD and CD-ROM production lines and the Chinese have destroyed the masters and molds being used to produce these products.
- China has arrested more than 800 people for IPR piracy.
- China has seized more than fifteen million pirated CDS and CD-ROMs, including those illegally smuggled into China.
- China issued 114,000 patents and 121,000 trademarks in 1997, many of which went to U.S. companies.
- Last month, the government of Guangdong Province announced that it had seized and

destroyed 2.8 million pirate video compact discs. Guangzhou has been one of the key transit points for VCDs smuggled into mainland China from Hong Kong and Macao.

The work is not at an end. Pirated retail CDS, CD-ROMs, and VCDs remain available in some Chinese cities. Chinese Customs and local anti-piracy officials must be more vigilant in enforcement. Unauthorized use of software in Chinese government ministries is a problem, and we are urging the Government of China to issue a State Council Directive prohibiting "end-user" piracy. Protection of well-known trademarks is inadequate in China, and trademark counterfeiting remains widespread. And while the 1992 bilateral agreement permits U.S. pharmaceutical companies to obtain up to seven years of "marketing exclusivity" for products still under patent in the United States, China's Ministry of Public Health may be cutting back the benefits of this agreement by granting overly broad marketing approvals to competing Chinese pharmaceutical companies as U.S. applications for marketing exclusivity are pending.

We also have concerns about protection of intellectual property rights in Hong Kong and Macau. This year we noted an increase in piracy in Hong Kong, and placed Macau on the Priority Watch List of our annual Special 301 report. An IPR team from our office is working with Hong Kong and Macau, and both governments are taking steps to address our concerns.

U.S. TRADE POLICY: THE CASE OF TEXTILES

The second example is textiles.

In 1994, and in February of 1997, the Administration reached bilateral agreements with China to achieve fair trade in textile products. In 1997, for the first time, our bilateral agreement provides for market access for U.S. textiles and apparel into China's market. China has also agreed to ensure that non-tariff barriers do not impede the achievement of real and effective access for US textile and apparel exports into China's market. Following on cutbacks in China's textile quota growth rates under the 1994 agreement, the 1997 agreement further reduced the overall quota to address enforcement issues. China, having once been our largest source of textiles and apparel, is now our fourth.

Illegal transshipments of textiles from China has been a significant concern. We remain resolved to act against such imports. In 1994 and 1995, the Administration found and charged transshipped products against China's quotas. In 1996 we triple-charged China's quotas, and we did so again this year to account for such illegal transshipment. We will continue to be vigilant to prevent transshipment.

BILATERAL PROBLEMS REMAIN

In both of these cases, we have advanced concrete American commercial interests and our broader interests in the rule of law and acceptance of international standards in China. However, significant bilateral trade problems remain.

Several of these are in agriculture. China has not resolved sanitary and phytosanitary issues with respect to citrus, Pacific Northwest wheat and meat. And at times China has taken unpredictable measures which reverse our progress. Last October, for example, China raised the tariff on soybean oil to 20%, just as U.S. soybean oil products were entering world markets. Through quick action we were able to reverse this.

Services are another problem area. Last spring, for example, China issued a decree requiring foreign financial information services to pay royalties to the Chinese government news agency. Again, we have prevented the implementation of this requirement.

And just last April, China announced an arbitrary ban on direct sales, intended to block scam schemes but also affecting well-regarded, law-abiding foreign operations. We are working with U.S. industry and Chinese authorities to address this issue.

COMMERCIAL PRINCIPLES OF WTO ACCESSION

On a broader scale, China's accession to the World Trade Organization, on a commercially meaningful basis, presents us with a comprehensive means to address the broad range of official and unofficial barriers to the Chinese market.

China's application to join the WTO is, of course, an historic event in itself. For decades, China -- together with Russia -- was one of the great antagonists of the principles the WTO embodies: open and transparent markets, the rule of law, and peaceful settlement of disputes. Thus the United States welcomes and supports China's application to join the WTO. However, we and other WTO members believe accession must be on commercially meaningful grounds.

The WTO is a contractual set of commitments, deepened continuously since the establishment of the GATT after the Second World War. These have developed from tariffs -- and our negotiations with China address tariff rates on more than 6,000 individual tariff lines -- to rules on nondiscrimination, national treatment, transparency, judicial review, uniform application of laws, customs procedures and other topics. And the sectors covered by the WTO have expanded from industrial goods to agriculture and services including basic telecommunications and financial services. All applicants, including China, must make commercially meaningful commitments in these areas.

STATUS OF WTO NEGOTIATIONS

This week I returned from China where I had a number of meetings with Ministers and other Chinese leaders on China's accession to the WTO. As many of you will have observed, the negotiations on WTO accession have proceeded slowly and sometimes unevenly. But the trajectory of those negotiations have been positive, especially when viewed over the last eighteen months.

During that period, China has made commitments on a number of critical issues related to rules of the WTO. For example, China committed to WTO obligations related to transparency, judicial review of administrative decisions, and nondiscrimination. China also agreed to phase in trading rights over three years, and to implement its obligations on Trade Related Intellectual Property Rights (TRIPS) upon accession.

During the last few weeks, negotiations progressed further. We made some headway on the critically important issues of distribution, but the coverage still remains too narrow. China, for the first time, presented an offer on basic telecommunications services and for the first time put forward an offer on financial services that included securities. However, the gaps are significant. In addition, little progress has been made on agriculture which is one of our key export sectors.

Much work remains ahead on all these issues. We also have more to do on the protocol and working party report which address many of the rules-related obligations. And we will take as long as necessary to get this right, beginning when negotiators meet again this month to continue the talks held in China prior to the President's visit.

In conclusion, let me emphasize three points.

First, we are asking nothing of China that China cannot do or that other countries throughout the world have not done.

Second, there are no shortcuts. Neither we nor any other WTO member can afford a political accession for China or any other country. We will continue to push ahead in these negotiations because it is in China's interest, in the United States' interest, and in the world's interest to see China in the WTO on commercially meaningful terms.

And third, China would do well to speed up its decisions on the WTO, because as time passes a commercially meaningful offer will require more than it does today. China first indicated an interest in GATT membership in 1986. By 1994, as negotiations continued, we had completed the Uruguay Round, deepening coverage of agriculture, subsidies, government procurement, investment intellectual property; binding tariffs; and requiring binding dispute settlements. By the beginning of this year, the WTO had advanced through the Information Technology Agreement, the Agreement on Basic Telecommunications and the Financial Services Agreement. Next year we will open negotiations through the WTO's "built-in agenda" on agriculture, services, intellectual property and other issues as well. In the future lie yet further talks. Thus, the longer China delays making a commercially meaningful offer, the more comprehensive a commercially meaningful offer must become.

CONCLUSION: NORMAL TRADE RELATIONS AND BROADER VALUES

One final point. Trade policy, in its narrowest sense, is about market access and fairness.

Our negotiations and our discrete policy objectives focus on the details: tariff lines, copyright enforcement, phytosanitary inspections and so on. And our basic goal is opportunity and fair treatment for American companies, workers, consumers, farmers and ranchers. That is what we seek to achieve in our trade negotiations, and it is why we support renewal of normal trade relations.

But the effects of both trade policy generally and normal trade relations in particular extend beyond commerce to fundamental national interests, values and ideals. We already see that in the contribution of our trade relationship to personal opportunity for Chinese citizens; the development of intellectual property rights and the rule of law more broadly; China's growing stake in a stable, peaceful, prosperous Pacific; and China's willingness most recently to broadcast nationwide the President's news conference in Beijing and his address at Beijing University.

And that brings me back to the broader point of engagement with China. Our discussions of China policy, including trade, concentrate on the problems. Rightly so. But on occasions like this hearing, we should also remember to step back and take the long view.

Just twenty years ago, when we made the initial decision to open normal trade relations, we did very little business in China. Very few Americans visited the country. Very few Chinese read foreign books, saw foreign news or traveled abroad. Few foreign firms -- indeed, few private businesses -- operated in China. China remained among the world's most closed societies, and the prospect of a public discussion of human rights between our Presidents would have been absolutely unthinkable.

Today, with all the problems that remain, we see American business operating in China. The share of the state in the economy has fallen. The range of political debate has widened. And Chinese citizens have seen the President of the United States on live television, speaking of human rights and democracy.

These trends are not only good for China; they are good for America. And they show that the engagement policy, with normal trade relations at its foundation, is working. So again, the Administration strongly supports normal trade relations with China, and looks forward to working with the Committee to ensure its renewal this year.

Thank you, Mr. Chairman. I look forward to your questions and those of the Committee.

PREPARED STATEMENT OF HON. CHARLES E. GRASSLEY

Thank you, Mr. Chairman. I will support, once again, the President's decision to extend Normal Trade Relations to China. I think there are a lot of good reasons to do so. I trust that our witnesses will be able to tell the Committee the importance of extending Normal Trade Relations and how critical it is to creating new jobs in America because export-related jobs pay way above national average wage.

The problems with China on such issues as trade, human rights, and religious persecution are well documented. And I won't take the time to repeat them here. But I'll just say that we are all concerned with China's poor record of promoting democracy, free enterprise and human rights. I'm especially concerned with the persecution of Christians in China.

But I think the question comes down to what is the best way to influence policy within China. Is it more effective to have a policy of isolationism, where we have virtually no trading relationship with China? This is what would happen if Normal Trade Relations is revoked. Or is it more effective to build a closer relationship with China through our trade policy? Trade serves to promote free enterprise and raise the standard of living of the Chinese people. It allows us to "export" our principles of liberty and democracy. I believe that the United States, and the Chinese people, are clearly better off by strengthening our relationship through trade.

Integrating China into the world community has already paid dividends. Recognizing that China still has many problems, most people would agree that significant progress has been made just in the last 10 years. I believe our economic and diplomatic relations with China have helped push this progress along.

This is not to say that we shouldn't be tough with China. Retaliatory measures can be very effective in encouraging further reforms in China. But retaliation should be targeted and specific.

For example, I recall that two years ago we placed \$2 billion in sanctions on China for breaching its commitment on intellectual property rights. Now it's clear that China has taken significant strides in cracking down on the pirating of intellectual property. Firm sanctions targeted at specific behavior can force change in China.

Revoking Normal Trade Relations is a blunt, ineffective tool. It would also hurt American workers, businesses and consumers. Our almost \$13 billion in annual exports to China would be put at risk, jeopardizing over 200,000 American jobs. And the increase in tariffs on China's exports into the United States would amount to a severe tax on American consumers.

The costs of revoking Normal Trade Relations with China—to American workers and consumers and in terms of our inability to effectuate change in China—clearly outweigh any perceived benefits. I'm very skeptical that Beijing will suddenly promote democracy and human rights because the United States ends its trading relationship with China.

Engagement is the right policy for encouraging change in China. Not isolationism. Some opponents of Normal Trade Relations with China are concerned, not with these other important issues, but with the trading relationship itself. They point to the United States' expanding trade deficit with China. Which last year amounted to just under \$50 billion. This trade imbalance is a serious concern to me, as well.

But the answer is not to stop trading with China. The answer is to open the Chinese market to U.S. exports. The current negotiations with China on its accession to the World Trade Organization is an opportunity to do this. We must get meaningful market access concessions from the Chinese before they are allowed in to the WTO. American products deserve the same access to the Chinese market as their products enjoy in the United States. The stakes are very high. In the agriculture sector, these negotiations will determine whether China becomes our largest export market or our biggest competitor. We cannot afford to make the same mistakes made when Japan entered the GATT in 1954. The U.S. is still shut out of that market in many respects. We need a tough, fair agreement with China.

It's time to move forward in our trading relationship with China. Let's get beyond this annual debate over trading status. And focus on how we can best expand access to China's market for American workers and businesses.

The way to do this is to continue to strengthen our trading relationship by supporting the president's decision to extend NTR to China.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, I applaud your initiative in bringing together this prestigious panel to once again debate the issue of normal trade relations with China. I also

commend you and our distinguished Ranking Minority Member, Senator Pat Moynihan, for shifting away from the term "MFN" toward what the cyber community would call "virtual reality," for that's what we're talking about today: "normal trade relations," hereafter referred to as "NTR."

We've had "normalized" trade with China for nearly a generation now. And its character, in my judgment, without attempting a prophecy, is not much like some periods of our own trade history.

We were in the early era of our merchandise trade history major exporters, until America became prosperous, as it is today, where we find ourselves with trade policies that, in large part, reflect the freedom of choice that our democratic, affluent society allows for. I have little doubt that nations like Mexico and even China will someday become major importers as they develop. In fact, this expectation lies at the foundation of virtually all economic theories applicable to today's style of trade.

NTR will remain a contentious issue because it is a part of our comprehensive foreign policy relationship with China. But I emphasize that commerce is only a part of that relationship. Human rights, arms transfers, labor abuses, and China's aggressive treatment toward Tibet are among the many other U.S. foreign policy concerns. Each of these areas of disagreement is the focus of negotiations between our two countries. But taken separately, no one of these issues ought to be sufficient to dictate the type of disengagement that some groups in the U.S. and abroad are promoting.

On the contrary, it is engagement, not disengagement, that has brought the type of diplomatic results that President Clinton elicited from his recent trip to China. In the express area of trade, we didn't get much from the trip. But we have strengthened China's commitment to continuing along a path that is very different from what existed before the activist engagement policies initiated by President Nixon and implemented by successive administrations since then, regardless of their political stripes.

Has all gone smoothly? Of course not; Tiananmen Square being the most egregious example of that, at least since the Nixon-era openings with China. Nor have we compiled a trade tally with China that I can point to with complete satisfaction. Like many in the export community, I'm getting impatient with the slowness of China's market access reforms. But I'm not impatient with its progress, because I know the plan is working, so to speak. I was in China recently, and I am a witness to this evolution.

This is not to say that I reject the need for compelling attention to China's behavior in the troublesome areas that I've mentioned. But I tend to agree with at least one comment made today by Mike Jendrzejczyk [JEN-DREH-JEH-ZEEK], Washington Director of Human Rights Watch, and I quote:

"... commercial relations alone will not automatically produce short-term—even long-term results—when it comes to basic political reform or human rights improvements."

But none can deny that engagement can. That statement is axiomatic because disengagement hasn't worked in the past. And in the specific area of trade, I can easily reinforce that generalization by pointing to the areas of progress that have been made which would certainly would not have occurred without the negotiations that regularly occur between our two countries' trade officials. Of course, we have had to wield the big stick of sanctions from time to time. But they were sanctions related to the foreign policy sector in dispute. I refer to the 1996 threat of trade sanctions against China unless it took prescribed steps to combat intellectual property piracy and counterfeit sales.

The point I wish to make, Mr. Chairman, is that engagement, especially in the trade arena, allows us to manage the relationship. Let me take that point further, and place it in dispute with my good friends on the right and left who object to what they call U.S. free market trade or, more specifically, laissez-faire globalism.

On the contrary, this is hardly free-market anything.

- First of all, the very existence of formal trade agreements, whether they be at the bilateral or multilateral levels, along with the enforcement in the U.S. of rigorous unilateral trade sanction statutes, such as our anti-dumping and section 301 provisions, are intended to manage trade.
- Secondly, laissez-faire globalism is an oxymoron since it implies an absence of the rights of sovereignty that no nation ever gives up in any trade agreement. The wall of sovereignty is the one trade barrier that no nation will ever be forced to remove. Because it includes the right to withdraw from any trade relationship.

I make these points as a way of endorsing NTR with China, along with closer diplomatic and commercial engagement on all foreign policy fronts, and thank the chair.

**Statement by Mike Jendrzeczyk
before the Senate Finance Committee**

July 9, 1998

Human Rights and US-China Trade Relations

Thank you, Mr. Chairman, for inviting us to testify today on the renewal of Most Favored Nation (MFN) trading status for China. This hearing is especially useful and timely coming just days after President Clinton's trip to China, which marked a turning point in U.S.-China relations. For China's new post-Deng leadership, the visit signaled an end to the stigma of the Tiananmen Square crackdown and an important symbolic recognition by the U.S. of China's emerging great power status. The entire summit was a major boost personally for President Jiang Zemin upon whom Clinton lavished what some thought to be excessive praise in remarks he made in Hong Kong. And Jiang's confident performance in the debate with Clinton on human rights during their extraordinary press conference no doubt enhanced the Chinese President's domestic standing and image.

But on the other hand, we give President Clinton high marks for effectively using the "bully pulpit" of his debate with Jiang, as well as his other public appearances in China, to stress the need for basic human rights, more open and accountable governance, and the rule of law as key ingredients for China's economic and social development. Even if some of his speeches and comments were later heavily edited in the official Chinese press and TV coverage, the message the President delivered could have long-term implications and encourage those within China seeking to bring about peaceful change -- including, perhaps, the eventual reversal of the official verdict on the 1989 massacre. At the same time, I think it would be premature to say that an era of "glasnost" has arrived in China.

For the Administration, Clinton's visit clearly cemented its policy of "constructive engagement" with China, seeking closer political and economic relations with Beijing and finding ways to manage areas of fundamental difference. Renewing MFN status for China is a key objective and linchpin of that policy, the Administration has said.

Before commenting on the summit in more detail, I would like to briefly outline my organization's position on MFN. We believe that trade and economic engagement can be a catalyst to promote greater openness and change from within China. However, commercial relations alone will not automatically produce short term -- or even long-term results -- when it comes to basic political reform or human rights improvements. China's increasingly pragmatic leadership is heavily dependent on continuing the economic reforms launched by Deng Xiaoping to maintain its legitimacy. Thus, it is in Jiang's self-interest to pursue greater access to American markets, technology, and investment to fuel the economic reforms.

But I certainly would not go as far as President Clinton did, in his remarks in Hong Kong, praising Jiang as "clearly committed to reform" and likely to "ride the wave of change" and bring democracy to China. I don't believe that kind of overstatement is necessary or very helpful, while the US encourages reform as a prerequisite to China's full integration into the international community.

Meanwhile, it is clearly in the US interest to maintain access to China's market and investment opportunities. But we also believe that the US should go beyond dialogue and discussion and exert pressure to move Beijing into compliance with its international obligations on human rights, trade and other matters. Dialogue is useful, but it is not enough. One form of pressure is the annual debate over renewal of China's MFN status. For this reason, we favor continuing the annual renewal process at least for now, though we recognize that the debate may have diminishing value over time. (For the record, Human Rights Watch has never called for revocation of MFN but has supported past efforts in Congress to link MFN renewal with specific human rights conditions.)

The limited steps on human rights taken by Beijing in recent years have come about largely because of pressure, including the prospect of a resolution on China at the United Nations Commission on Human Rights in Geneva -- a process the Administration abandoned this past spring -- and the debate over annual MFN renewal. Among these limited steps have been the release of prominent dissidents, visits by United Nations working groups and rapporteurs -- including the UN Special Rapporteur on Religious Intolerance, who visited China and Tibet in 1994 and last year's trip by the UN Working Group on Arbitrary Detention -- talks with the International Committee of the Red Cross (ICRC), and Beijing's promises to sign and ratify the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR). Until Beijing both signs and ratifies these two important treaties -- welcome steps if they happen -- they have no binding force.

On October 26, 1997, just prior to the Clinton-Jiang summit in Washington, China signed the ICESCR but to date has not ratified it. It has yet to sign the ICCPR. In private discussions with European diplomats, Chinese authorities have indicated they intend to attach reservations taking exception to particular provisions in both treaties. These include Article 19 of the ICCPR on the right to freedom of expression and article 8 of the ICESCR on the right to form trade unions. It is precisely these rights that are now directly under assault in China. Beijing did not sign the ICCPR prior to Clinton's visit, as the Administration had urged, but apparently plans to do so sometime this fall, when the U.N. High Commissioner for Human Rights plans to visit China -- thus getting credit twice.

Mr. Chairman, we also believe that the MFN debate can be useful as a potential insurance policy. China's ambitious economic reforms pose real risks and trade-offs for the Party's

political control and maintenance of "social stability." As President Clinton indicated in his speech in Shanghai last week, the restructuring of state enterprises is resulting in the lay-off of millions of workers, and this is "disrupting settled patterns of life and work." There is evidence, in fact, of growing unrest and mounting social tensions, as well as dissatisfaction with rampant corruption. And there is no clear indication yet as to whether the government will try to maintain stability by allowing greater openness and peaceful expression of dissent, as Clinton urged, or whether it will crack down. The annual MFN debate can function as a check, subjecting China's behavior -- and the Administration's policy -- to annual scrutiny by Congress, the media, and the executive branch.

Recent developments in Indonesia might offer some lessons for China. There, the government of President Soeharto pursued a policy of export-driven economic development, and this gave Soeharto legitimacy both domestically and internationally. But the Indonesian government resisted calls for political reform for more than thirty years, until the economy collapsed, Soeharto forfeited all legitimacy, and he was forced out of office.

The Administration is using the prospect of permanent MFN as an incentive to push Beijing to end trade barriers and make other reforms necessary to qualify for entry into the World Trade Organization (WTO.) Clinton referred to this in his talk to the American Chamber of Commerce in Shanghai, stressing that China would be admitted to the WTO only on the basis of a "commercially viable agreement." If and when the Administration believes such an agreement is reached, we believe Congress should insist on having a voice in the process by voting on the President's decision to admit China into the WTO. This would provide an opportunity to debate broader questions about China's reliability as a global trading partner, based on transparency and the rule of law. To what extent can private contracts be honored, corruption controlled, and agreements on intellectual property rights honored without an independent judiciary system, a free and open press, and respect for basic rights of free expression?

For example, look at the case of Gao Yu, a Chinese journalist working for a Hong Kong newspaper. She is now serving a six year sentence for "leaking state secrets" because she published an article with details on China's state budget. Gao Yu was arrested in October 1993, just as she was preparing to leave Beijing to take a position at the Columbia University School of Journalism in New York. Last year, UNESCO honored her with its World Press Freedom Prize, despite sharp protests from the Chinese government.

There is also the crucial question of internationally recognized worker rights, including the right to free association. I would like to briefly mention two cases that illustrate the broader problem of the pervasive violation of workers' rights:

-- Yang Qinheng, a dissident in Shanghai, was sentenced in March 1998 to three years of "reeducation through labor" after being arrested for reading an open letter on Radio Free Asia on January 27, 1998 calling for the right to unionize. He also said, in the broadcast, that the government's anti-unemployment efforts were threatening to social stability.

--On January 16, 1998, Li Qingxi, an unemployed former health worker at a clinic attached to the Datong Coal Mining Administration in Shaanxi province, was arrested for putting up notices calling on workers to form their own independent trade unions. He was released on February 24, but put under a form of house arrest for one year, serving a "reeducation through labor" sentence.

Further comments on worker rights concerns are included later in my testimony, as they relate to the possible lifting of post-1989 sanctions.

The Clinton-Jiang Summit

We believe that more might have been achieved at the summit in terms of concrete progress on human rights if the White House had set clear preconditions before setting the formal date for the visit, thus using the enormous political leverage provided by the summit. As it was, the actual agreements announced in Beijing were mainly symbolic in nature, and only two dealt with human rights -- continued rule of law programs involving training and exchanges of judges and lawyers, and resumption of the formal bilateral dialogue on human rights, suspended by Beijing in 1994. While these are useful steps, do not directly address the problem of ongoing abuses.

The dialogue with China, begun by the Bush Administration in 1990, yielded little in the way of useful information on political prisoners or other tangible results. Bilateral human rights dialogues with other governments more recently, including Japan, Australia, Canada and the European Union, have been equally disappointing. Once again, we believe that dialogue needs to be accompanied by sustained, effective pressure.

Rule of law programs are likely to have only minimal impact in the short term, though they can certainly be helpful over time, and there has been some incremental progress in the area of legal reforms. For example, amendments to the Criminal Procedure Law adopted in 1996 allow defendants access to lawyers while they are still in police custody. On the other hand, there is a wide gap between laws on the book and their actual implementation and enforcement. According to a new study by the Lawyers Committee for Human Rights in New York, ("Lawyers in China: Obstacles to Independence and the Defense of Rights,") institutional impediments to a strong legal system include lack of transparency, poor quality legislation, the influence of the Communist Party and local governments on judicial appointments, and corruption.

The immediate outcome of the summit was particularly disappointing given the negotiating efforts of Secretary Albright and NSC advisor Sandy Berger, who traveled to Beijing in advance of the summit, as did other key Administration officials. We were looking for more to be achieved beyond atmospherics and a better working relationship between Clinton and Jiang. But we are hopeful that more may still emerge, in the coming weeks and months, from the private talks between Clinton and Jiang and other senior US and Chinese officials.

Most crucially, how will the Administration use the summit itself, which the Chinese leadership has touted as a "success," to make concrete progress on the specific human rights issues which the President raised? These include: freedom of expression and association; arbitrary detention; Tibet; and freedom of religion. Now, more than ever, there is a need for a clearly articulated human rights policy and strategy that seeks significant, far-reaching reforms beyond cosmetic gestures or the release of a few prominent dissidents into exile.

1. Freedom of expression and association

We give the President high marks for his assertion that the Tiananmen crackdown was wrong and for arguing that "stability in the twenty-first century will require high levels of freedom" in China. In the spirit of those remarks, Clinton should continue to press for the lifting

of the official ban on more than fifty Chinese pro-democracy activists abroad from returning home, arguing that many of these exiles are well-placed to provide the ideas for reform that will be critical to China's future. This blacklist was first published secretly by the Public Security Bureau in 1994, and has probably been expanded since then. The list includes journalists, labor activists, intellectuals and others who have been targeted due to their involvement in pro-democracy activities in China or while living abroad. Wang Dan, the former Chinese student leader, gave the list to State Department and White House officials prior to the President's trip.

If it hasn't done so already, the Administration should secure a commitment from officials at the highest levels that there will be no retaliation against Chinese in Xian, Beijing, Shanghai and elsewhere who dared to give interviews to Western journalists or in other ways speak out during the President's trip. We are particularly concerned about Bao Tong, the former Chinese Communist Party official who gave courageous, outspoken interviews with the *Washington Post*, *Los Angeles Times*, *CBS Evening News*, *New York Times*, *Voice Of America* and other major media outlets prior to and during the President's visit-- despite repeated warnings by the police.

Bao Tong was imprisoned in 1989, shortly after martial law was declared; along with Communist Party Secretary Zhao Ziyang, he opposed the crackdown on pro-democracy demonstrators. Bao was Zhao's chief of staff and senior political advisor. He completed a seven year prison term in May 1996, then was forced to relocate to a heavily-monitored apartment outside of Beijing while he served out a probationary sentence of two year's denial of civil and political rights. As soon as his rights were restored last month, Bao began doing interviews, calling for political reform and the reversal of the 1989 verdict. He commented positively on Clinton's visit to China, and noted "the President enjoys freedom of speech," but questioned whether Chinese citizens had the same freedom. "Maybe there is freedom of speech with Chinese characteristics," he remarked to the *Los Angeles Times*. (The Chinese constitution, as Jiang declared in the press conference with Clinton, contains provisions guaranteeing, in theory, the rights of free speech and association.)

We are also concerned about Ding Zilin, an advocate on behalf of the 1989 victims, who was reportedly ordered not to leave her home until Clinton departed Beijing; Xu Wenli, a long-time activist under heavy surveillance during the visit; and Wang Youcai, who tried to register a political party to challenge the Community Party, was reportedly questioned by the police in Hangzhou and warned to cease his activities. To our knowledge, all of those detained while the President was in China have now been released, but they still could be subjected to harassment, intimidation, and further detention. We were disappointed that the President refused to meet with Ding Zilin, or other family members of the victims of 1989.

In addition, Clinton should ensure that the rule of law programs to which the administration is committed include a focus on the rights guaranteed by the International Covenant on Civil and Political Rights, in light of China's promise to sign the treaty later this year.

2. Arbitrary detention

President Clinton noted he had raised with President Jiang Zemin the problem of people "incarcerated now for offenses no longer on the books in China" as well as those detained since 1989 for non-violent offenses, and said he asked if these people could be released. He was

apparently referring, in the first case, to some 2,000 persons convicted under the provisions on "counterrevolution" which were removed from the criminal code in March 1997, and replaced with a new set of offenses of "endangering state security." Now he should step up efforts to secure those releases. He should also ensure that any public references to agreed on law programs be used not just to praise legal reforms already in place but to press for an end to the problems that remain, including the system of "re-education through labor," an arbitrary administrative punishment of up to three years' detention in a labor camp for those who run afoul of authorities, with no judicial review. According to official government statistics, more than 230,000 individuals were serving sentences in "re-education through labor" camps as of December 1997. This is an increase of more than 50 percent over the number of detainees in labor camps just four years earlier (in mid-1993, the government reported less than 150,000 inmates.) Conditions in the labor camps are often harsh. These administrative punishments violate numerous provisions of international law.

3. Tibet

Human rights conditions in Tibet remain grim. Tibetan political and religious activists face "disappearance," or incommunicado detention, long prison sentences, and unacceptable treatment in custody. The European Union (EU) sent a delegation to Tibet from May 1-10, 1998 and just delivered its report. The group included the ambassadors to China of Great Britain, Luxembourg and Austria. They concluded that "the TAR (Tibet Autonomous Region) authorities exercise extremely tight control over the principal elements of Tibetan religion and culture...(Their) first priority is to combat the political expression of Tibetan nationalism and the emergence of an independence movement." They visited Drapchi prison but were not allowed to see particular prisoners they asked to interview.

We were encouraged by the high level of attention the President gave to the issue of Tibet, which was discussed at greater length during his press conference with Jiang than any other rights issue. The groundwork has been laid to pursue several issues of particular importance: release of Tibetan prisoners who have not used violence; securing verifiable information on the whereabouts and current status of the nine-year-old Panchen Lama, the second highest figure in Tibetan Buddhism (the troika delegation mentioned above was denied access to him); opening up Tibet to regular, unhindered access by international human rights monitors and foreign journalists; and ending the re-education campaign in Buddhist nunneries and monasteries in Tibet, which has resulted in the expulsion of thousands of monks and nuns who refuse to denounce the Dalai Lama.

4. Freedom of Religion

President Clinton raised the issue of freedom of religion in broad terms, in the context of his remarks during the press conference as well as his own attendance at an "official" state-sanctioned church in Beijing. Subsequently, Chinese officials asserted that religious activists detained in China are not being held for their beliefs. The Administration should clearly rebut the Chinese government's position that freedom of religion is the same as freedom to believe, whereas in fact it embraces freedom to meet, train leaders, educate followers, and distribute material. The U.S. also should stress that it is concerned over restrictions on the freedom of all religions in China — Buddhism, Islam, and Daoism, as well as Christianity. In the wake of the summit, we hope the Administration will press for implementation of the recommendations of the U.N. Special Rapporteur on Religious Intolerance, who visited Beijing and Lhasa in

November 1994, as well as for an easing of the government's requirements that all religious bodies register with the state.

For the past few years, we have documented the Chinese government's increasing control over religious organizations, which has paralleled an increasing interest in religion by Chinese citizens. (For details, see the Human Rights Watch reports *China: State Control of Religion* issued in October 1997, and an update published in March 1998). The government singles out Christianity and Islam as two avenues for subversion by "hostile foreign forces," and views religion as "a critical element of the nationalist movements in Tibet and Xinjiang." It is also concerned about the growth of religious activity exacerbating social instability at a time when the government's economic reforms are creating greater dislocation.

Although harsh prison sentences and violence against religious activists are still reported, state control increasingly takes the form of the registration process, through which the government monitors membership in religious organizations, locations of meetings, training, selection of clergy, publication of religious materials, and funding for religious activities. Failure to register can result in the imposition of fines, seizure of property, razing of "illegal" religious structures, forcible dispersal of religious gatherings, and occasionally, short term detention.

Other Post-Summit Issues:

A few other comments on post-summit policy issues:

We noted that during the President's trip the Administration did not announce, as was widely expected, a lifting of the remaining 1989 sanctions. This may reflect the lack of progress on key issues, including human rights, in the private talks, or perhaps the Administration intends to use the easing of sanctions as a carrot to reward positive steps Beijing might take in the coming weeks or months.

Mr. Chairman, we certainly understand that a combination of carrots and sticks can sometimes be useful in international diplomacy. But under the current human rights conditions in China, we would strongly oppose any move by the Administration to restore the Overseas Private Investment Corporation (OPIC) or Trade Development Administration (TDA) programs suspended in 1989. In addition, we would remind the Administration of the worker rights requirements for OPIC. Assistance by OPIC, under the U.S. Trade Act of 1974, as amended, can only be given to countries that are taking steps to adopt and implement internationally recognized worker rights, including the right of association, the right to organize and bargain collectively, and that prohibit forced labor. As the State Department points out in the 1997 country reports, "Independent trade unions are illegal (in China)...Credible reports indicate that the Government has attempted to stamp out illegal union activity." We would also oppose any easing of existing restrictions on arms transfers to China including sales of dual use technology, such as Sikorsky helicopters.

Finally, it is unclear whether Premier Zhu Rongji, during his talks with Clinton in Beijing, was formally invited to the US for bilateral meetings this fall; he is scheduled to speak at the annual meeting of the World Bank and International Monetary fund in early October. We hope the White House will refrain from officially announcing a US visit by Zhu until the Chinese government has taken at least some of the concrete steps outlined above to improve human rights.

PREPARED STATEMENT OF ERNEST S. MICEK

I. INTRODUCTION

My name is Ernie Micek. I am Chairman and Chief Executive Officer of Cargill, Incorporated. Cargill is a privately held agribusiness company founded over 130 years ago in Iowa. Today, Cargill is headquartered in Minneapolis, Minnesota, and is involved in marketing, processing, and distributing agricultural, food, financial, and industrial commodities. The company employs some 79,000 people in 72 countries.

U.S. companies are an important force for change in China. Cargill has had nearly 30 years' experience in doing business with China. For Cargill and the other U.S. companies that invest directly in China, this has meant finding and training employees, providing them career opportunities outside the state system, teaching them to use their creativity to solve problems, and equipping them to think and act for themselves. It has meant finding customers and providing them with food or the means to produce food, raising their living standards by giving them more than they had, and providing them with the opportunity to succeed on their own rather than to depend on the government.

Our presence in China does not mean that we approve of everything that happens in China. A great deal must change within China to transform that country into a pluralistic society, governed democratically and driven by a market economy, all changes that will be good for the Chinese people. However, walling off a neighbor cuts off any opportunity to change that neighbor's behavior and makes the global neighborhood a more dangerous place.

Today, I am testifying as Chairman of the Emergency Committee for American Trade (ECAT) on behalf of the heads of ECAT member companies about the increasing importance of U.S.-China trade and the necessity of renewing China's most-favored-nation, or Normal Trade Relations (NTR) treatment. Renewal of China's NTR treatment is a priority for ECAT member companies. ECAT members are major American companies with global operations and represent all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over \$1 trillion, and the companies employ approximately 4 million persons.

NTR treatment does not confer any special status on China. It simply means that we are agreeing not to discriminate against China's goods in favor of a third country. In return, China must agree to extend the United States the same benefit. NTR is based on a well-established principle under international commercial law and is a core obligation under the WTO rules. The United States grants NTR treatment to virtually all of its trading partners, with the exception of Afghanistan, Cuba, Laos, North Korea, and Vietnam. Therefore, the extension of NTR status to China simply confers what is normal trade status for the majority of U.S. trading partners.

The decision to extend NTR treatment to China has been supported by Republican and Democratic Administrations for nearly two decades and has served U.S. interests well. It has enabled the expansion of U.S. trade and investment in China, as well as greater cooperation on security issues and progress on human rights. It has promoted economic reforms in China that have raised living standards and encouraged greater personal freedom for the average Chinese citizen. It has allowed for coordination between the United States and China in responding to the Asian financial crisis.

The potential for greater cooperation continues, as the United States and China have now established an ongoing process of engagement that is yielding progress on human rights, non-proliferation, environmental cooperation, and other areas. It is important to evaluate the gains from engagement over time and to avoid the trap of overreacting to any particular event. Building mutual understanding and trust takes time, patience, and a steady hand.

While the recent summit did not produce dramatic results, it served the important purpose of strengthening bilateral ties. The live broadcast on Chinese television of President Clinton's press conference with President Jiang Zemin and his address to the students at Beijing University provided an historic opportunity for direct communication with the Chinese people. We must now build on that opportunity by openly discussing our differences and pressing China to modify its policies in key areas of concern on national security, human rights, and trade.

Maintaining stable relations with China into the next century must remain a national priority. China is now the largest emerging economy in the world. Its conduct during the period of recent Asian financial turmoil has been positive and stabilizing. If we are to advance U.S. interests in Asia as a whole, we must continue to strengthen and broaden our relations with China and encourage its integration into the global economy.

Recent allegations that sensitive technology has been transferred to China should not bring about any change in China's NTR status. These allegations should be properly investigated, and any illegal conduct should be punished under applicable U.S. law. ECAT does not believe, however, that America's vital bilateral relations with China should be put on hold or that China's NTR treatment should be suspended while the investigations are carried out. At the same time, it is important that our relations with China not be destabilized by other legislation currently under congressional consideration that could impose new restrictions on U.S.-China trade.

The United States also must maintain a broad vision for the future of its relations with China. ECAT believes that America's national interests are best served by moving away from the uncertainties of annual NTR renewal. A firm foundation of mutual understanding and trust must be built on lasting ties, including such important steps as granting permanent NTR treatment to China and bringing China into the WTO on the basis of a commercially acceptable protocol of accession. For this to happen, China must be willing to abide by the WTO rules and to open further its markets to U.S. goods, services, and agricultural products.

II. EXTENDING CHINA'S NTR STATUS PROMOTES U.S. TRADE AND INVESTMENT IN CHINA

The renewal of China's NTR status is essential to the continued expansion of U.S. trade and investment in China.

A. Importance of the China Market

As the largest emerging economy in the world, China has enormous potential as a market for U.S. exports. Since 1979 when the United States first agreed to extend NTR treatment to China, U.S. exports of American goods and services have grown nearly twenty-fold to roughly \$16 billion in 1997. Over the same period, U.S. investment in China has grown to \$25 billion. U.S. exports to China support more than 200,000 U.S. jobs in the manufacturing and agricultural sectors, as well as tens of thousands of additional U.S. retail, service, transportation, marketing, consumer goods, telecommunications, and finance jobs. Moreover, we are just scratching the surface of this market.

China already is one of the largest markets for U.S. agricultural exports. In recent years, China has imported large quantities of U.S. grains, cotton, poultry, vegetable oils, and other farm products. The American agricultural community has called China its most important growth market for the 21st century. Achieving this potential, however, requires building a more open system serving China's burgeoning food demand.

There is vast potential for further sales of U.S. products and services in China. China has huge developmental needs to improve the living standard of its people. It remains committed to spending \$750 billion on infrastructure projects over the next decade. Participating in the economic transformation of the world's most populous country is an opportunity the United States should embrace with enthusiasm. A foothold in the China market is also key to expanding access to other Asia-Pacific markets, which, in the long term, hold important potential for growth in U.S. trade.

B. Cargill's Experience in China

Cargill has been trading with China since shortly after President Nixon re-established relations with that country in the early 1970s. China is one of Cargill's largest markets for U.S. exports of grain, proteins, fertilizers, and other agricultural commodities. Until recently, when a controversy over TCK smut arose, China was buying an average of 8 to 10 million tons of grain per year, and the number may rise as high as 30 million tons by 2010. Cargill ships orange juice and phosphate fertilizer from plants in Florida, as well as cotton, corn, soybeans, soybean products, and meat from their principal U.S. production areas.

Cargill also has expanded its trade with China by investing in facilities in China. Cargill has built its two largest animal feed plants in Jiaying and Zhenjiang in the Yangtze River Basin, near Shanghai. We have invested in a 90-percent owned bulk fertilizer blending plant near Tianjin. We also own and operate a soybean crushing plant in Jinan, and have trading offices in Beijing and Shanghai. We now employ over 500 people in China.

We are proud of the fact that we and many other U.S. firms have made a positive impact on the lives of our employees in China through improvements in workplace habits, supplying better products, and paying higher wages and benefits. For example, Chinese farmers historically have had to buy all their fertilizer from the Chinese government. In 1996, Cargill started operating our bulk blending plant in Tianjin, the first of its kind in China. We are now able to sell directly to farmers and small farm stores a blended product that is cheaper, more effective, and more

environmentally balanced. In only one year, Chinese farmers have been able to double the size of their cabbage plants—a staple in the Chinese diet—thanks to the application of Cargill's blended fertilizer.

In another instance, a farmer saw his corn yield increase by one-third using our fertilizer blend. No one would believe his claims until he showed them his crop. Now, he is planning on using his increased income from higher crop yields for his children's education—his eldest daughter is in college, and the government has been cutting back on school subsidies. Similarly, the use of Cargill's scientifically developed feed by farmers near our feed mills in China has helped them produce higher quality hogs and poultry more economically.

Cargill also has brought with our investment dollars our safety, quality, and ethics programs, and our management and environmental practices to China. At our oilseed crushing plant near Jinan, we require workers to wear hardhats, safety shoes, safety glasses, and earplugs—new practices in China. Even the guardrails that we installed around the work site were a foreign concept to the average Chinese worker. We also built an employee's dining room and installed new bathrooms and showers for the workers. Beyond the direct physical benefits of these changes is an attitudinal difference that affects behavior in and beyond the workplace.

Our Corporate Quality Program and the Cargill Guiding Principles, our code of conduct, have been translated into Chinese, and have been taught to our employees. In addition, we have begun transferring Chinese nationals to other sites in Asia and in the United States for management training. Our ultimate goal is to have an entirely Chinese workforce running Cargill's operations on the mainland, as we do now in Taiwan.

Like many U.S. firms in China, Cargill provides its employees with income and benefits higher than prevailing wages. Our presence in China also has brought intangible benefits to our employees through our openness to new ideas and creativity and our willingness to give greater responsibility to those who are capable and ambitious.

Cargill's trade with China also provides important benefits here at home. For example, Cargill's exports of fertilizer to China help support Cargill's capital intensive phosphate mining and processing operations in Florida. Cargill's export of phosphate fertilizer to China and elsewhere enables our Florida fertilizer facilities to operate year round. Jim Johnson, one of our union employees at our Tampa fertilizer operations, spent a week in Washington last year telling that story to members of Congress in an effort to secure passage of fast-track legislation. He and others like him in our many export-dependent U.S. facilities are prepared to come again because they know the United States needs to compete in today's global economy and needs fast-track trade negotiating authority to get the best competitive terms it can.

Doing business in China is not without challenges. China's infrastructure is poor, and our ability to participate in some of its markets remains restricted. As one of our managers recently observed, the central government controls grain production, pricing, and distribution. The government also controls how much fertilizer and agricultural chemicals are imported, what prices will be paid for grain and cotton, and how much of these commodities can be exported. The government maintains monopolies on grain and fiber purchases, as well as on the main distribution channels for agricultural inputs. China's futures markets do not function well and are excessively influenced by state-owned companies. There are frequent embargoes on shipments of agricultural commodities from one province to another.

We have learned the hard way about the difficulties of doing business in China. Our Jinan soybean plant started out as a joint venture cottonseed plant in 1988. Frankly, it seemed like everything that could go wrong did. The first supply of cottonseed deteriorated in quality before plant construction was finished, and one of the venture partners did not meet his commitment to deliver cottonseed. Boll weevils wiped out 40 percent of the new cottonseed crop, and a change in government pricing policies for cotton, corn, and wheat caused Chinese farmers to plant crops other than cotton. This series of problems led us to buy out our partners and redesign the plant to process soybeans. The Jinan plant now produces twice the volume of soybeans as the average Chinese plant, using both locally-sourced beans and beans exported from the United States. Yet it still is not economically viable.

We have faced other problems as well. We have had to close a small corn drying plant. We have had difficulty collecting on contract obligations, even from branches of the government. Nonetheless, these obstacles have been valuable learning tools. They are part of the tuition we expect to pay in a developing economy—where contracts are seen as the beginning point of negotiation and the government believes that agricultural commerce and production must be planned and managed by the state.

The important point I am trying to make with this detail on Cargill's experience in China is this: we are like a new immigrant to a country; we have struggled to overcome difficulties; we are beginning to make headway—and an impact—in this developing country; but ours remains a fragile existence filled more with plans and hopes than successes, and we are building a business as we have learned to do it in many other countries, responsibly and honorably. Our limited success to date and our hopes for the future—like the hopes of other American companies—will be jeopardized if China's NTR status is withdrawn. Such an act would unfairly penalize U.S. companies by undermining the strides they have made over the last 10 years in improving their competitiveness in China. This is an important opportunity for American farmers and workers that needs nurture rather than censure.

III. WITHDRAWAL OF CHINA'S NTR TREATMENT WOULD JEOPARDIZE U.S. SECURITY INTERESTS AND THE SPREAD OF WESTERN VALUES IN CHINA

ECAT also believes that more than just commercial interests are at stake. The withdrawal of China's NTR treatment would undercut the important gains the United States has made in achieving greater strategic cooperation with China. The United States has received China's assistance in persuading North Korea to end its nuclear weapons program, brokering a peace settlement in Cambodia, and trying to halt the arms race between India and Pakistan. The United States also has been successful in gaining China's adherence to key multilateral non-proliferation regimes, including the Nuclear Non-Proliferation Treaty and the treaty banning nuclear testing. China also is playing a critical stabilizing role in Asia by maintaining the value of its currency to help prevent a further worsening of the Asian financial crisis. Withdrawal of China's NTR treatment would destabilize bilateral relations and undermine ongoing and future efforts to broaden strategic cooperation with China in these areas.

Revocation of China's NTR treatment also would undermine the remarkable transformation of Chinese society that has occurred over the last two decades as a result of its opening to the West. The Chinese people now enjoy higher living standards, greater economic freedom, and more access to outside information than ever before. The Chinese government is now actively encouraging private home ownership, unthinkable to the average Chinese citizen 10 years ago. Use of the Internet by Chinese citizens is burgeoning, bringing an even greater flow of outside information and ideas into China. Several hundred million Chinese have now participated in village-level elections, and opportunities for religious expression are increasing.

Withdrawal of China's NTR treatment would greatly reduce if not eliminate the positive force of U.S. trade and investment in raising Chinese living standards and promoting wider individual freedoms.

IV. REVOCATION OF CHINA'S NTR TREATMENT WOULD UNDERMINE THE ECONOMIC STABILITY AND VITALITY OF HONG KONG AND TAIWAN

Continuation of China's NTR treatment is essential to maintaining the health of Hong Kong's economy and preserving Taiwan's prosperity and autonomy.

A. Importance of China's NTR Status to Hong Kong's Economy

Hong Kong remains a vitally important gateway to China, and its open economy is a major influence on mainland China. The maintenance of China's NTR treatment, in turn, is crucial to the continued health of Hong Kong's economy. If China's NTR treatment were removed, Hong Kong's trade would decrease by approximately \$32 billion, and employment would fall by over 80,000 jobs. NTR for China is particularly critical at this time when Hong Kong is striving to preserve the stability of its financial markets. In addition, the influence of Hong Kong on the mainland's social and political structures would be diminished were Hong Kong's economy to suffer as a result of China's loss of NTR.

B. China's NTR Treatment and the Prosperity of Taiwan

Under the 1972 Shanghai Communiqué, the United States adheres to a one-China policy, whereby the United States formally recognizes the People's Republic of China, acknowledges that Taiwan is part of China, and maintains only unofficial, commercial relations with Taiwan. This policy has enabled the United States over the last two decades to make progress in developing its political and economic relationship with China, while maintaining commercial ties with both China and Taiwan—both major U.S. export markets.

The one-China policy also has allowed China and Taiwan to develop their trade and investment ties. Trade flows between Taiwan and mainland China are in excess of \$17 billion annually. Taiwanese companies have invested over \$35 billion in the Chinese mainland over the last decade. Taiwanese investment in China is likely to

increase even further as a result of the Asian financial crisis, as investors view the Chinese market as one of the more stable and secure investment environments in Asia. At the same time, Taiwan has lifted a long-standing ban prohibiting Chinese-owned companies in Hong Kong from investing in Taiwan. The relaxation of the ban indicates the important role that Hong Kong may have in fostering a closer relationship between China and Taiwan.

Withdrawal of NTR treatment from China would undermine the one-China policy and our efforts to preserve our economic relations with Taiwan in a way that allows its economy to prosper. It also would threaten Taiwan's admission to the WTO, since there is an informal understanding among WTO members that Taiwan will not be permitted to accede to the WTO until after China has been admitted. If China's NTR treatment is withdrawn, the prospects for any progress on our negotiations with China on WTO accession would be very dim.

V. CHINA'S TRADE DEFICIT WITH THE UNITED STATES DOES NOT WARRANT THE REVOCATION OF CHINA'S NTR TREATMENT

Our rising trade deficit with China does not warrant withdrawal of China's NTR treatment. Removing China's NTR treatment would only result in the erection of further barriers to U.S. goods and services in the form of retaliatory Chinese tariffs that would cut off U.S. exports and lead to a worsening of the bilateral trade balance. Instead, we must continue our efforts to remove the significant market access barriers that remain in China to U.S. goods and services by continuing our negotiations with China to secure its accession to the WTO on the basis of a commercially acceptable protocol of accession. Until that goal is achieved, we should ensure that China abides by all of its existing market access commitments.

It also is important to put the U.S. trade deficit with China in perspective. First, flaws in the Department of Commerce's methodology used to compile trade data have overstated China's deficit with the United States by as much as one-third. Second, 90 percent of U.S. imports from China represents items that were previously imported from other countries, as manufacturing of low-wage consumer products such as toys and footwear has moved from countries such as Taiwan and Hong Kong to China. Reflecting this shift in production, our trade deficits with Taiwan and Hong Kong have fallen sharply. Finally, a portion of the U.S. trade deficit with China is due to U.S. unilateral sanctions imposed against China, such as restrictions on the export of high-speed computers.

VI. IMPORTANCE OF MOVING TOWARD A RESTRUCTURED U.S.-CHINA RELATIONSHIP

While we are now focused on the renewal of China's NTR treatment, we should not lose sight of the importance of moving toward a more stable relationship with China built on greater mutual understanding and trust. U.S. extension of permanent NTR treatment to China and China's entry into the WTO on the basis of a commercially acceptable protocol of accession would go a long way toward establishing such a relationship. Removal of U.S. unilateral sanctions against China would be another aspect of such a relationship.

An important step toward strengthening bilateral relations occurred last fall with the agreement to establish a regular summit process between the United States and China. Important progress was achieved during the summit last fall in several areas, including human rights, non-proliferation, and environmental cooperation. President Clinton's recent state visit to China enhances the opportunity for further progress in these areas, as well as others including advancing China's WTO accession negotiations by encouraging greater openness in China's economy.

The terms under which China eventually joins the WTO are important. They will be an essential part of integrating China into the global economy and ensuring that the largest emerging economy in the world is subject to the rules of the international trading system.

Clearly, China's membership under appropriate conditions in the WTO will advance U.S. interests. A commercially acceptable outcome would improve market access for U.S. goods, services, and investment. Furthermore, WTO consultation and dispute settlement procedures would provide a far more effective means to enforce China's market access commitments and adherence to WTO rules than unilateral U.S. sanctions.

China's admission to the WTO will promote U.S. exports, as a result of lower NTR tariff rates negotiated as part of the accession package and China's elimination of discriminatory import treatment. It also would promote the expansion of U.S. service industries through the liberalization of China's telecommunications and financial services markets. In addition, China's WTO accession will further the goal of structural reform in China, given that fundamental changes in China's economic regime

will be required as part of the process of joining the WTO and accepting its obligations.

The United States cannot take full advantage of these benefits unless it extends permanent NTR treatment to China. Permanent NTR treatment is a core obligation under Article I of the GATT and the WTO. The Jackson-Vanik provisions of Title IV of the Trade Act of 1974 prohibit the United States from granting permanent NTR treatment to China. Once China is admitted to the WTO, if the United States extends WTO benefits to China, the Jackson-Vanik provisions could immediately be challenged by the Chinese as denying NTR treatment in violation of Article I. The United States has therefore taken the position that it would not apply WTO benefits to China until the Jackson-Vanik provisions have been amended to allow the extension of permanent NTR treatment to China.

Although progress has been achieved in WTO accession negotiations with the Chinese, particularly in the area of WTO rules, the Chinese have yet to make sufficient offers in a number of areas, including market access for goods and services, trading and distribution rights, and agricultural access issues covering tariffs, tariff-rate quotas, and discriminatory application of sanitary and phytosanitary standards to wheat, citrus, and meat products. It remains disappointing that China has not taken sufficient steps to date to meet WTO accession obligations.

VII. CONCLUSION

The extension of China's NTR treatment advances the U.S. national interest. It is essential to continuing the expansion of U.S. trade in China and the Asia-Pacific region, maintaining a strong U.S. economy, and promoting U.S. security interests. It is strongly supported by Cargill, the Emergency Committee for American Trade, the Business Coalition for U.S.-China Trade, and many other business groups.

In closing, while I recognize the focus of this hearing is on U.S.-China trade relations, I want to take this opportunity to thank you Mr. Chairman, Mr. Moynihan, and other members of the Committee for your leadership in support of the renewal of fast-track negotiating authority. The enactment of broad, multi-year fast-track authority is critical to strengthening our nation's trade infrastructure, as is providing for adequate funding for the IMF, CBI parity, and legislation promoting expanded trade with Africa. Maintaining a strong trade infrastructure must remain a national priority in order for the United States to maintain its lead in the global economy. Mr. Chairman, Cargill and the other ECAT member companies look to your leadership in moving forward on this agenda and urge the Congress to work together on a bipartisan basis to enact these critical trade initiatives before the end of this term of Congress.

I appreciate this opportunity to appear before the Committee on Finance on behalf of ECAT.

Attachments.

BUSINESS COALITION FOR U.S.-CHINA TRADE

June 2, 1998

RENEWING CHINA'S MFN TRADING STATUS SUPPORTS AMERICA'S SECURITY, TRADE AND PROSPERITY

- Renewal of China's MFN trading status advances American interests. MFN -- the normal trading relationship the U.S. maintains with almost all nations -- has been a cornerstone of U.S.-China relations for nearly two decades under Presidents Carter, Reagan, Bush and Clinton.
- Dealing with China calls for bipartisan American leadership, where politics stops at the water's edge. China's rise as a global power will shape the next century. America must stay engaged.
- Concerns have been expressed about possible transfers of U.S. aerospace technology that could assist the development of Chinese weapons systems. U.S. law strictly prohibits unauthorized sales of controlled technology. If U.S. firms or individuals have engaged in prohibited transactions, they should be punished according to existing laws.
- Congress should not engage in a rush to judgment before the House and Senate committees have gathered the relevant facts, or the U.S. Department of Justice has completed its investigation. Revocation of MFN or other anti-China legislation would threaten U.S.-China relations and America's vital interest in further progress on proliferation, security, and trade during President Clinton's upcoming visit.
- While the allegations of illicit transfers must be pursued, the United States has a fundamental stake in continued stable relations with the world's most populous country and a key Asian power, particularly in the midst of an unprecedented regional financial crisis and intensive U.S. efforts to head off a destructive arms race in South Asia after India's and Pakistan's decisions to test nuclear weapons.
- Engagement works:

U.S. Security. Since President Nixon's historic visit in 1972, China has substantially downsized the PLA; acquiesced in UN resolutions authorizing a U.S.-led coalition to defeat Iraq in the Persian Gulf War; helped pressure North Korea into ending its nuclear weapons program; and helped broker a peace settlement in Cambodia.

U.S.-China Summit. The U.S.-China Summit between President Clinton and Chinese President Jiang Zemin in October 1997 led to concrete progress on nuclear non-proliferation, trade, and human rights. Since the summit, China has released prominent dissidents, including Wei Jingsheng and Wang Dan; agreed to halt sales of C-802 cruise missiles to the Middle East; and agreed to sign the International Covenant on Civil and Political Rights.

Non-Proliferation. There has been steady progress on controlling proliferation of weapons of mass destruction. China joined the Nuclear Non-Proliferation Treaty in 1992; signed the Chemical Weapons Convention in 1993; agreed to apply the Missile Technology Control Regime in 1994; supported extension of the Nuclear Non-Proliferation Treaty in 1995; and (unlike India and Pakistan) signed the Comprehensive Nuclear Test Ban Treaty in 1996.

U.S. Trade. Since the U.S. first agreed to extend MFN in 1979, exports of American goods and services to China have grown nearly 20-fold, to about \$16 billion in 1997. U.S.-China trade supports over 200,000 export-related American jobs, as well as tens of thousands of additional U.S. retail, transportation, marketing, consumer goods, financial services, and telecommunications jobs.

Agriculture. China is the sixth-largest export market in the world for America's farmers, buying increasing quantities of U.S. farm products, such as grains, corn, cotton, meat, poultry, and vegetable oils. The American agricultural community has called China "the most important growth market for U.S. agriculture into the 21st century."

Human Rights. The lives and freedoms of ordinary Chinese have improved dramatically under economic reform. Several hundred million Chinese have participated in village-level democratic elections. Access to outside sources of information, such as foreign television programs, books, and magazines has expanded dramatically.

Religious Freedom. A religious revival is underway in China. There are an estimated 12,000 churches and 150 million Chinese believers, including 100 million Buddhists, 17 million Muslims, and 35 million Christians -- the largest conversion to Christianity in any nation in any similar period in history.

- MFN is not a special privilege or "favor." It is the normal tariff treatment the U.S. grants to almost all countries -- except Cuba, North Korea, Laos, Afghanistan, Vietnam, and Serbia. Revoking MFN would impose a \$245 tax increase on the average American family, falling hardest on low-income and working households who would pay more for affordable, high-quality consumer goods, such as apparel, footwear, and toys.
- China has helped prevent an Asian financial meltdown by resisting pressures to devalue. It must continue to play a stabilizing role now that India and Pakistan have launched a regional arms race by testing atomic bombs. Continued U.S.-China cooperation is critical to managing both crises and protecting American security.
- This is not the time to initiate unilateral economic warfare by revoking MFN or enacting anti-China legislation. Disrupting stable U.S. strategic and commercial ties with China would have far-reaching consequences and jeopardize U.S. security. The President's upcoming state visit represents a vital opportunity to improve bilateral cooperation on issues of concern to all Americans.

**BUSINESS COALITION
FOR U.S.-CHINA TRADE**

June 8, 1998

The Honorable Trent Lott
Majority Leader
S-230 of the Capitol
Washington, DC 20515

Dear Majority Leader:

We wish to express our strong conviction that broad and stable relations with China advance the U.S. national interest. The U.S. policy of engagement has promoted American interests on issues of vital importance, including security, non-proliferation, the rule of law, human rights, and trade. This policy has long received congressional bipartisan support.

One of the major issues that will soon be before the Congress is the renewal of China's most-favored nation (MFN) treatment. MFN—the normal trading relationship the U.S. maintains with almost all nations—has been a cornerstone of U.S.-China relations for nearly two decades under Presidents Carter, Reagan, Bush, and Clinton. Improved relations with China and maintaining China's MFN status are a high priority for the undersigned organizations, which represent every major sector of the American economy. We have looked to your leadership over the past several years in moving toward strong relations with China. Indeed, it is your leadership that has prevented the rancorous annual debates over the renewal of China's (MFN) status from threatening the foundations of stable U.S.-China relations.

Along with all Americans, we share your conviction that U.S. national security must be safeguarded. Applicable U.S. law should be enforced fully, allegations of illicit activities should be pursued, and any illegal conduct with regard to China must be punished, even as MFN is extended.

We look forward to working with you to renew China's MFN status and to strengthen U.S. relations with China in ways that serve our national interest.

Sincerely,

Aerospace Industries Association of America
American Apparel Manufacturers Association
American Association of Exporters & Importers
American Automobile Manufacturers Association
American Business Conference
American Cotton Shippers Association
American Council of Life Insurance
American Farm Bureau Federation
American Import Shippers Association
American Soybean Association
Business Coalition for U.S.-China Trade
Business Roundtable, The
Council of Insurance Agents and Brokers
Coalition of Service Industries

Computer and Communications Industry Association
Construction Industry Manufacturers Association
Consumers for World Trade
Electronic Industries Alliance
Emergency Committee for American Trade
Erie Area Chamber of Commerce, Pennsylvania
Fertilizer Institute, The
Florida Phosphate Council
Footwear Distributors & Retailers of America
Freeport Area Chamber of Commerce, Illinois
General Aviation Manufacturers Association
Greater Columbia Chamber of Commerce, South Carolina
Greater Hartford Chamber of Commerce, Connecticut
Greater Irving-Las Colinas Chamber of Commerce, Texas
Information Technology Industry Council
International Association of Drilling Contractors
International Mass Retail Association
Leather Apparel Association
Memphis Area Chamber of Commerce, Tennessee
Monroe Chamber of Commerce, Louisiana
Nation Foreign Trade Council
National Association of Manufacturers
National Association of Wheat Growers
National Cattlemen's Beef Association
National Corn Growers Association
National Electrical Manufacturers Association
National Foreign Trade Council
National Oilseed Processors Association
National Retail Federation
National Society of Professional Engineers
National Sunflower Association
North American Export Grain Association
Oriental Rug Importers Association, Inc.
Petroleum Equipment Suppliers Association
Pharmaceutical Research and Manufacturers of America
Rochester Chamber of Commerce, New York
Sacramento Chamber of Commerce, California
Securities Industry Association
Spokane Area Chamber of Commerce, Washington
Sporting Goods Manufacturers Association
Toy Manufacturers of America, Inc.
Troy Area Chamber of Commerce, Ohio
U.S. Association of Importers of Textiles and Apparel
U.S. Chamber of Commerce
U.S. Council for International Business
United States-China Business Council



APPEAL OF CONSCIENCE
FOUNDATION

**United States Senate
Committee on Finance**
July 9, 1998
Washington, D.C.

Rabbi Arthur Schneier
President
Appeal of Conscience Foundation
New York

Mr. Chairman, thank you for giving me the opportunity to share with you and the members of the Senate Finance Committee highlights of the report on religious freedom issued by Archbishop Theodore E. McCarrick of Newark, Dr. Don Argue, former President of the National Association of Evangelicals, and myself on our three-week trip to China and Tibet (SAR) in February 1998. I respectfully ask that the full report be included in the minutes of this meeting.

Our delegation was appointed by President Clinton and invited by President Jiang during last October's summit meeting in Washington. For the first time in the history of China three American religious leaders met the head of state and the highest officials of government, not to discuss trade or the economy, not to talk about strategic and geopolitical cooperation. Our agenda with President Jiang had a specific purpose, it focussed on religious freedom for all believers in China.

Why did the President of China bother with three American religious leaders? Increasingly, there is the realization that the bilateral relationship between our two

countries is multi-faceted that includes religious freedom and human rights of much concern to the American people.

May I read to you a message I received from President Jiang, conveyed to me by the Chinese Ambassador, Li Zhaoxing: "The visit," [referring to the mission of the three religious leaders from the United States,] "was indeed an important milestone for bilateral relations, and will contribute significantly to deep understanding and broader cooperation between the Chinese and American people."

We were also pleased to learn that the 78-year-old Catholic Bishop Zeng Jingmu and Protestant leader Gao Feng have been released. They were on top of our list of 30 religious leaders held in detention.

On the eve of his historic trip to China, President Clinton met with us to review our findings and recommendations. After the meeting, addressing the media, President Clinton stated that, "...their insights will certainly have a big influence on my activities and conversations as I prepare to embark for China." (Washington, June 18, 1998)

As founder and President of the inter-faith Appeal of Conscience Foundation I have worked for over 33 years on behalf of religious freedom and human rights throughout the world. Since the Foundation's first mission to China in 1981, I have focussed on the issues of human rights, religious freedom and the building bridges between the religious communities of our two nations.

I am a Holocaust survivor and personally experienced religious persecution 60 years ago in my birthplace, Vienna, Austria. This sad encounter with man's inhumanity to man is deeply etched in my mind and caused me to make human rights and religious freedom my life's work.

I am therefore proud that concern for human rights has become very much a part of U.S. foreign policy. President Clinton and Secretary of State Albright have used this Presidential visit to both publicly and privately enunciate it. Men and women of all faiths found encouragement in President Clinton's address in the Chongwenmen Christian Church in Beijing where he described the American and Chinese people as, "...brothers and sisters as children of God."

In Shanghai, I joined Secretary Albright at a religious roundtable with representatives of the five officially sanctioned religions -Buddhism, Taoism, Islam, Catholicism and Protestantism, numbering about 100 million according to official figures. We learned about the enormous growth in the number of believers, among old and young alike and sought clarification on issues effecting religious communities. Judaism, with a long history in China, should also receive official recognition by the People's Republic of China.

First Lady Hillary Rodham Clinton, Secretary of State Albright and Chelsea Clinton visited the newly restored Ohel Rachel Synagogue in Shanghai—built in 1920 and not in use since 1952—and participated in the presentation of a Torah Scroll, a gift of my synagogue, Park East Synagogue in New York, for use by the expatriate Jewish community of Shanghai. It is noteworthy that in February the

synagogue was still used for storage as a warehouse. Thanks to the commitment of Mayor Xu Kuangdi of Shanghai, it was beautifully restored at the expense of the Shanghai Municipal Government and declared a historic landmark.

Living in the United States it is difficult to understand the difference between registered and unregistered churches and the whole concept of reeducation for clergy detained because they are not part of a sanctioned church. The intrusion of government into religious life is not acceptable in our system of democracy. We note with satisfaction the decision of the Chinese government to sign the United Nations International Covenant on Civil and Political Rights, which includes guarantees of freedom of religion and assembly. We encourage the Chinese government to normalize relations with the Holy See and to find a peaceful resolution in Tibet by pursuing a dialogue with the Dalai Lama.

During my seven visits to China I have seen the transformations that have taken place, not only in the skylines of cities but in a society in transition from the ravages of the Cultural Revolution to economic reform, greater social openness and increasing contact with the outside world.

The rule of man is slowly giving way to the rule of law. However, standards and implementation still vary in different cities and regions. Supreme Court Justice Anthony Kennedy will travel to China next year to advise in the creation of a legal system that respects individual rights and Professor Paul Gewirtz and his legal team at the State Department are pursuing the "rule of law initiative" with their Chinese counterparts.

In 1981 China had only 100 lawyers. Today, there are 110,000 lawyers for over 1.2 billion people.

What is the best way to deal with China, an emerging superpower?

The relationship between our two great nations requires a web of engagements in economics, trade, security and non-proliferation and, yes, human rights and religious freedom. This complex, multi-dimensional relationship, I believe, should include normal trade relations that deserve bipartisan support of MFN.

The American and Chinese people will help shape the destiny for peace and security in the 21st century. A constructive dialogue that encompasses religious freedom and human rights does not operate in a vacuum. The deeper the involvement, the broader the engagement, the easier it is to tackle the more difficult issues that divide us. The potential rewards of freedom and democracy unite us.

**TESTIMONY OF
FEDERAL EXPRESS CORPORATION
FREDERICK W. SMITH
PRESIDENT, CHAIRMAN AND CEO
OF
FDX CORPORATION**

JULY 9, 1998

Mr. Chairman, Members of the Committee, we greatly appreciate the opportunity to participate in this important hearing on the "Renewal of Normal Trade Relations between the United States and China." I am Frederick W. Smith, President, Chairman and CEO of FDX Corporation, and will be speaking primarily on behalf of the FDX subsidiary Federal Express Corporation. In addition, I am Vice Chairman of the U.S. China Business Council, a private, non-profit and non-partisan association with nearly three hundred member U.S. companies. I will address each of the (2) two entities separately, but would first like to summarize my position by making three points:

- 1) Liberalized or normalized trade relations with China is the best, if not the only, approach which will allow the United States to be an active participant in the long term liberalization of China generally.
- 2) It is clearly in the interest of American business, the American economy and the United States government as well to normalize trade relations with China.
- 3) The politicization of this extremely important economic issue for domestic constituent consumption risks \$80 billion in trade relationships, hundreds of thousands of U.S. jobs and the viability of billions of dollars of U.S. investments in China.

Let me first address the issues of China as they relate specifically to Federal Express and conclude by addressing U.S.-China business generally.

Federal Express Corporation must initially state its unequivocal support for the normalization of trade with China. Moreover, Federal Express believes that normalization should be on a permanent basis, as it is with every other major trading partner.

Our reasons are simple. If a normal trading relationship is not established with China, the resulting retaliation and downward spiral in bilateral U.S.-China relations would deprive American companies access to the Chinese market for a long time to come and would seriously affect FedEx's competitive position. Competitors from other countries would applaud this development, while moving rapidly to fill the void. Moreover, the deterioration of U.S.-China relations would be destabilizing to Hong Kong, the Korean peninsula, Japan, the Taiwan Strait

and have major negative implications for the economic and political stability of the Indian subcontinent and Asia as a whole. The U.S. economy could not escape the consequences, nor could FedEx.

The underlying premise of the opponents of normalization that disparate treatment of China would somehow achieve its transformation into a more acceptable member of the world community is simply wrong. More outside contact with China, not less, is the only way to influence China's development in a positive fashion. Any attempt to isolate China (and that is what opponents of normalization appear to be seeking) would ironically isolate only the United States. We would cut the ground from under the very reformist forces within China that are the only realistic hope of China's evolution toward a modern, more open society. Change in China will come from within, not from without.

Better economic conditions do contribute to improving the social and eventually the political climate. Federal Express and other American companies constitute a positive force for change. Federal Express began serving China in 1984 and began flying to China in 1996. Federal Express brings its best practices to the Chinese market place and to our Chinese partners. We daily expose countless Chinese to the efficiencies of our brand of market capitalism, whether it is in business ethics, personnel policy, management practice or operational efficiency. We are proud of our record in China. We believe that demonstrating to the Chinese how a modern corporation conducts itself benefits not only China but the United States as well.

A few of our non-business activities in China include:

- ◆ hosting Chinese delegations at our Memphis hub and other worldwide express clearance facilities;
- ◆ working with Chinese Customs to develop modern express clearance procedures;
- ◆ sponsoring Chinese air traffic controllers to study in the United States;
- ◆ donating to several Chinese local charities;
- ◆ sponsoring scholarship programs at Chinese universities;
- ◆ flying gratis airlifts to support Chinese earthquake victims, as well as two medical supply airlifts to Chengdu and Chongqing.

Federal Express investment and interests in China are a central part of our corporate strategy and the future health of our company. China is already one of America's fastest growing markets and supports hundreds of thousands of jobs in the United States. No multinational company can afford to stay out of the China market. Its size alone dictates participation, but combined with its unprecedented growth over the past two decades, the reasons for operating in China become too compelling to ignore.

We have been expanding rapidly in China. We and our Chinese partner companies provide Federal Express service to over a hundred cities in China. Through our AsiaOne network, centered on our hub at Subic Bay in the Philippines, we connect China overnight to some thirty economies in Asia, as well as to the United States and over 200 countries worldwide. As the

Chinese economy increasingly becomes subject to the discipline of the market, the kinds of corporate practices we instill in our partners will become the norm for any modern Chinese businessman and his employees.

China's WTO accession will not solve all of our bilateral commercial problems, but it will help create an environment in which traditional obstacles to market access can be removed and disputes resolved fairly and transparently. FedEx operates today in a China where these standards have only begun to gain a foothold. FedEx looks forward to China's accession to the WTO and observance of the discipline of that body.

Even though the issue of services generally, and distribution specifically, areas of U.S. strength, are those where China has been most resistant in our WTO negotiations, we look at China from a long term perspective. We intend to continue expanding our presence and operations in China, because the size and potential of the market warrant it. Similarly, it is the emergence of China as a strategic factor in regional and world politics that requires no less from our government. It is time we put our country's relationship with China on a sustainable basis for the next century. For this, normal trade is essential.

Speaking for the larger U.S. business community, as Vice Chairman of the U.S.-China Business Council, I would like to point out some of the important initiatives the Council is spearheading. The U.S.-China Business Council regularly analyzes the U.S.-China trade relationship and the Chinese business and investment climate. American business is well aware that economic and social progress in any society depends heavily on the implementation of a universally acceptable system of laws and regulations. The Council on June, 2, 1998, announced the establishment of the U.S.-China Legal Cooperation Fund. A number of companies in our Council voluntarily pledged to support this fund. Significant private sector support was developed in furtherance of the October 1997 commitments by President Clinton and President Jiang to enhance U.S.-China cooperation in key building-block areas in the legal arena.

Although such activities are not nearly as newsworthy or sensational as some of the China related issues we see splashed across America today, they are designed to create support in both China and the United States for a business regime which will allow trade between the two countries to prosper, and likewise allow individuals in both countries to enhance their employment potential. We hope that this act of confidence by the business community in an important U.S.-China cooperative program, will encourage those in the Congress to support similar low-key efforts by making available the resources necessary to pursue a growing list of U.S.-China cooperative endeavors. Certainly, this area of legal development is one of the most important.

It should be noted that the conduct of business in China by American owned enterprises, facing the daily challenges presented by the business environment there, is an important part of the changing landscape in China, making the country more competitive and more prosperous. It is not the purpose of American business in China, or any other host country, actively to transform the local political system or to create fundamental social or cultural change. We believe, however that the expansion of American business presence in China has clearly been a catalyst

for change as China moves into the new global economy, and for economic advances that have benefited millions of Chinese and American citizens.

The challenge for America in its dealings with China must be viewed on a long-term basis. Where do we want to be with a country the size and potential of China in ten years? In twenty? An how do we get there? Do we encourage the positive forces of change in China by cutting ourselves off from them or by working with them. The answer to that seems so self-evident, I am amazed that we are even discussing it.

Few will dispute that change in China over the past 30, 20 or 10 years has been positive and that the lives of individual Chinese, whether we are talking about economic livelihood, individual choice, or, yes, even human rights, are not better than they were at any time in the previous 200 years. Increased contact with the outside world, not less, helped bring this about, and American business has played its part. We are talking about societal change on a massive scale. There are not simple, overnight fixes, although those who paint China, and our relationship with it, in one-dimensional hues of black and white would have us believe so.

Were we still dealing with the China of the 1960's or early 70's, a China still a pariah within the world community, viewing others and being viewed with suspicion and distrust, think of the difficulty in dealing with virtually any regional or transnational issue of importance. China clearly has the power to shape world events in either a positive or negative fashion. One can only imagine how we would cope with the Asian economic crisis, or the Korean peninsula, illegal immigrants, drugs, pollution or any number of other problems if China remained isolated from normal political, economic, or social contacts.

I believe that normalization of trade with China is fundamental to maintaining normal relations across the board - politically, economically, and culturally. And I believe the obverse holds equally true. Does anyone really think that we advance our agendas in other areas by isolating ourselves from normal economic intercourse with China?

We have opportunities in aviation, for instance, to immediately increase the access for carriers of each country. Those opportunities do not exist in aviation alone. From both a business and geopolitical perspective, we are on the verge of some tremendously important developments. It is my hope that this testimony will further the understanding of the importance to the American economy and to Americans of making our trade relationship with China a normal one. Our children will be the beneficiaries. I hope we are up to the challenge.

I will be pleased to answer any specific questions members of this Committee may have.

SENATE FINANCE COMMITTEE
Hearing on
U.S.-China Trade Relations
Testimony by
Warren W. Smith

Chairman Roth, Senator Moynihan and distinguished members of the Committee, I thank you for this opportunity to speak in regard to Tibet in U.S.-China relations. I will confine my remarks to the Tibet issue, an appropriate subject for this hearing, I believe, given the extraordinary prominence that Tibet achieved during President Clinton's visit to China.

The primary focus of current Chinese policy in Tibet is economic development. The political strategy behind this policy is based upon the Marxist doctrine that economics determines political consciousness. The Chinese Communists believe that if Tibetans are economically prosperous they will abandon Tibetan separatist nationalism and learn to love the Chinese motherland. The policy of economic development is accompanied by continued repression of all Tibetan opposition, restriction of all aspects of Tibetan cultural autonomy, and an opening of Tibet to an unrestrained influx of Chinese.

Restrictions on Tibetan autonomy have increased during the 1990s. The limited degree of cultural and religious autonomy that Tibetans were allowed during the 1980s unexpectedly led to a dramatic revival of Tibetan culture, religion and nationalism. The opening of Tibet to the outside world led to the revival of Tibet as an international political issue. What the Chinese learned from the experiment with Tibetan autonomy in the 1980s was that all aspects of Tibetan culture had nationalist content; therefore, Tibetan autonomy had to be restricted in order to prevent the growth of Tibetan separatist nationalism.

China has reimposed restrictions on Tibetan autonomy because autonomy inevitably perpetuates a separate Tibetan cultural and political identity. This is what the Chinese mean when they dismiss the Dalai Lama's acceptance of autonomy within China as a disguised strategy to achieve eventual independence. The current Communist Party secretary in Tibet, Chen Kuiyuan, has, since the beginning of his tenure in 1992, mounted a campaign against all aspects of Tibetan autonomy. The way Chen Kuiyuan has phrased this is that Tibet should not be treated differently based upon Tibet's "special characteristics."

China's economic development strategy in Tibet, combined with a loosening of restrictions on freedom of movement in the Chinese interior, has resulted in a large influx of Chinese to Tibet. Today, the private economy of Lhasa and other Tibetan cities is substantially in the hands of Chinese migrants. China's economic development policies in Tibet benefit Chinese far more

than Tibetans. The Chinese state derives far more from the exploitation of Tibet's resources than it spends on economic assistance to Tibet.

Colonization is China's traditional means for the assimilation of frontier peoples. Historically, Chinese frontier expansionist policy has been characterized by the establishment of ostensibly autonomous political entities followed by the imposition of direct Chinese rule and then Chinese colonization. Current Chinese policy in Tibet appears to fall into that traditional pattern. The large influx of Chinese to Tibet threatens Tibetan cultural and territorial autonomy. Chinese colonization, combined with the repression of Tibetan culture, threatens the very survival of a separate Tibetan identity.

Tibet remains under the tight control of Chinese officials backed up by the Public Security Police, People's Armed Police, and the People's Liberation Army. Tibetans continue to be arrested, tortured and sentenced to lengthy prison terms for the slightest expression of opposition to Chinese rule. Monks and nuns are forcibly expelled from monasteries and nunneries for refusal to denounce the Dalai Lama. Many flee to Nepal and India to seek religious freedom.

China's development and colonization policy in Tibet is financed and supported by China's rapid economic growth. Therefore, it is tempting to favor any policy on the part of the United States that would restrict the growth of the Chinese economy. China certainly deserves condemnation for its human rights practices, including what the Dalai Lama has characterized as its cultural genocide in Tibet.

However, we have just witnessed, during President Clinton's recent visit to China, evidence that American engagement with China can have a positive influence on China's internal politics, including, perhaps, its policy toward Tibet. President Clinton's and Chinese President Jiang Zemin's joint press conference exposed a Chinese audience to a free discussion not only of the forbidden subject of Tiananmen but of the equally sensitive subject of Tibet.

Jiang Zemin's unsolicited and apparently unscripted remarks elevated the Tibet issue to unexpected prominence. President Clinton had raised the issue of Tibet, suggesting that China should negotiate with the Dalai Lama. Jiang apparently intended to present China's position on Tibet, a position that he and most Chinese feel is entirely justified, and thereby terminate discussion of the subject. However, what he accomplished was to expose China's sensitivity on Tibet and open up the Tibet issue to internal debate.

The substance of Jiang's remarks were not as significant as was the great length to which he went to defend Chinese policy in Tibet. Jiang repeated the usual Chinese position on Tibet, that is, that Tibet was a feudal serfdom liberated by China and that China has devoted considerable funds for development in Tibet. Jiang made no concessions on the issue of negotiations with the Dalai Lama; in fact, he imposed the entirely new condition that the Dalai Lama should recognize that Taiwan is a province of China. Jiang revealed no flexibility on the Tibet issue except to

indicate that China currently has some private contacts with the Dalai Lama. However, this is possibly significant since it may indicate that China is beginning to feel the need to alleviate the pressure of international criticism by taking some steps to communicate with the Dalai Lama.

Jiang's condition that China would negotiate with the Dalai Lama if he would accept that Tibet is an inalienable part of China is nothing new. The Dalai Lama has publicly and repeatedly stated that he would accept genuine autonomy within the Chinese state. The difficulty with this condition is that China insists that the Dalai Lama accept that Tibet has always been and will always be a part of China, in other words, that Tibet was never an independent state or even a separate country. This condition is a necessity for China in order to forever eliminate the specter of Chinese imperialism against Tibet. However, it is impossible for the Dalai Lama to accept because it is untrue. Tibet was an independent state during the empire period of the seventh to ninth centuries and again during the modern period from 1912 to 1951. Until the Chinese annexation of Tibet in 1950 Tibet was a separate country with its own national identity.

In his reply to Jiang's exposition on Tibet President Clinton corrected Jiang in his impression that supporters of Tibet were solely or predominantly religious followers of the Dalai Lama, pointing out that Tibet is not only a religious issue, but also, and more fundamentally, a political issue. President Clinton also added, in an interview prior to his departure for China with the Radio Free Asia reporters who were denied visas, a new formula for U.S. policy on Tibet. The president declared that the U.S. was in favor of Tibetan "autonomy with integrity." This formula gives substance to the concept of autonomy by defining the goal of autonomy as the preservation of cultural integrity, which also implies the preservation of national integrity.

The result of President Clinton's and President Jiang's open discussion of Tibet was not any obvious progress in the resolution of the issue. Only time will tell if Jiang's remarks will result in a Chinese initiative on Tibet. Rather, the most significant result was that both Chinese and American audiences learned that Tibet is a much more significant issue than was previously thought. Hopefully, the public discussion of Tibet will open up the Tibet issue for debate within China.

Those of us who are supporters of Tibet are heartened by the prominence that Tibet was given by both the Chinese and American sides during President Clinton's visit. We are heartened even though another Chinese spokesman, the Chairman of the Religious Affairs Bureau, reiterated China's hard-line policy on Tibet, even predicting that the Dalai Lama would "receive retribution according to Buddhist scriptures" for his crime of attempting to split the Chinese motherland. This same official also condemned the appointment of a US State Department official as Special Coordinator for Tibet and said that that official was unwelcome in China or Tibet.

China would undoubtedly prefer not to have international visitors bring up the issue of Tibet. China has so far faced

little domestic criticism of its Tibet policy. Most Chinese do not question China's self-appointed civilizing mission in Tibet. China would prefer to pursue its current Tibet policy of economic development combined with colonization, knowing that, given time, the Tibetan issue will disappear beneath a flood of Chinese colonists.

However, as Jiang's response to American pressure on Tibet revealed, China is aware that the international community is increasingly critical of Chinese policy in Tibet. China cannot completely ignore international criticism of its Tibet policy. China responds to criticism of its Tibet policy with its usual propaganda on the issue, but it must also be aware that this propaganda is ineffective. China hopes to be accepted as a world power and to play a responsible role in international politics. However, China is finding that its policies in Tibet are hindering its acceptance by the international community. China is thus faced with a dilemma; it is fearful of allowing any actual autonomy in Tibet but it feels the need to respond to international demands that it allow such autonomy.

China fears Tibetan autonomy because it is quite aware that Tibetans are not Chinese and would prefer to be free of Chinese control. China's experience of the 1980s, when cultural and religious autonomy led to the revival and growth of Tibetan nationalism, has convinced many Chinese leaders that they cannot allow any real Tibetan autonomy. China would prefer to eliminate Tibetan autonomy altogether and with it the issue of Tibet. China would prefer to implement a final solution to the Tibetan problem by means of Chinese colonization, but it now knows that this will subject it to eternal condemnation by the international community.

American engagement with China has proven its effectiveness in raising the issue of Tibet to a higher and more public level. Engagement at least forces China to depart somewhat from its usual harsh rhetoric on Tibet in an attempt to respond diplomatically to the criticisms of foreign guests. An open China is far more vulnerable to international influence than a closed China. China has, during its periods of isolation, proven its ability to resist foreign criticism and international sanctions. It is in the interest of the international community, as well as of the Chinese and Tibetan peoples, that China should remain open to the world. It is in the interest of the United States that the policy of engagement with China should continue.

This does not mean that all criticism of China should cease. Instead, engagement offers an opportunity to achieve greater influence by means of constructive criticism. The strategy in regard to Tibet should be to convince China that it is in its own interest to resolve the Tibet issue by allowing a greater degree of autonomy. Only international criticism can convince China to do so. Only China's concern for its international reputation can overcome its fear of allowing Tibetan autonomy. American engagement with China is in Tibet's interest, but it must be combined with constant diplomatic efforts, public criticism, Congressional actions, and unrelenting efforts by friends of Tibet to remind China of what is in its best interest in regard

to Tibet. I encourage the members of this committee to learn about the situation in Tibet and to accept China's invitations to personally inspect conditions in Tibet.

The United States should support China's economic development and it should support development in Tibet. However, economic development in Tibet should benefit Tibetans. China's development policy in Tibet not only does not benefit Tibetans but it threatens their national and cultural survival. U.S. policy should emphasize Tibetans' rights to economic as well as cultural and religious autonomy. Tibetans should have the right to control their own natural resources and to pursue an economic development policy of their own choosing. American policy should be to convince China that its state-controlled economic exploitation of Tibet is less efficient and less beneficial to both Tibet and China than contractual and independent trade relations with an autonomous Tibet. China should be encouraged to allow economic autonomy in Tibet because this is also in China's best interest.

In closing, I would like to emphasize that the situation in Tibet is dire. China has a strangle hold on Tibet and its assimilative policies and processes are fully deployed. China's development policy in Tibet is benign in appearance but potentially destructive of the remnants of Tibet's autonomous existence. An American policy of engagement with China is no guarantee for the survival of Tibet. However, it is better than a policy of isolation. Sanctions and isolation have always furthered the policies of Chinese leftists and hard-liners who favor the more rapid assimilation of Tibet. Engagement offers at least the opportunity for China's leaders and the Chinese people to encounter international sympathy and support for Tibet. It forces them to defend Chinese policy or, if found indefensible, perhaps to alter that policy.

COMMUNICATIONS

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

Introduction and Background

The American Association of Exporters and Importers (AAEI) is a national organization, comprised of approximately 1,000 U.S. company-members that export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, automobiles/parts, household consumer goods, 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 1998. 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 \$15.9 billion in U.S. goods and services last year. Beyond China, Asia accounts for over 37% of U.S. trade (compared to 22% for Europe); supports over 3 million export-related American jobs, and represents a major customer for U.S. farm products, including grains, meat, lumber, fish, tobacco, fruits and cotton.

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. Currently, these "column 2" rates are only imposed on Afghanistan, Cuba, North Korea and Vietnam. The additional cost associated with denying MFN status would be paid for by U.S. companies and will wreak havoc on capital and currency markets, jeopardizing overall economic and political stability in Asia.

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 we 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 Congress to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as all of our other trading partners/competitors do.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and until quite recently has experienced an annual growth 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, financial-- and, consequently, geopolitical -- relationship between the two countries and all of Asia. 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.

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 -- furthers 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. Recently, China has exercised great restraint by refraining from devaluing the yuan. This is despite the great pressures on its economy due to the extreme weakening of the Japanese yen, which is making Chinese exports far more expensive in Japan, Asia and the rest of the world.

There are many 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.

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.

An MFN Cut-Off Would Have A Deleterious Impact on Global Markets

Over the longer term, revocation of MFN could force China to devalue the yuan. With the devaluation, there would be a ripple effect - shaking currency markets to creating political and social unrest throughout the Asian region. The culmination would be global deflation which would result in severe consequences for U.S. exporters.

China represents a significant, and very promising, market for U.S. exports, with approximately \$15.9 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. Important U.S. industry sectors such as agriculture and aircraft have recently been hit by Chinese willingness to turn to our competitors when its exports are threatened. It would be truly ironic if the net result of the last few year's 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.

China's economy has grown rapidly in recent years and is poised for major expansion over the next decade as China rationalizes its economy. According to an IMF study, China's economy is now the world's third largest. 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. government for its current domestic economic problems, further strengthening hard-line, anti-Western elements in the government. AAEI reminds Congress that this is a precarious time for the overall economic and political stability of the entire Asian region.

The U.S. Should Support China's Admission To The WTO

China's accession to the World Trade Organization (WTO) under commercially acceptable terms will open markets for U.S. goods and services, assure market-oriented economic reforms, and subject China to the rules and disciplines of the global trading system. This is the United States' strongest opportunity to get China to commit to central WTO principles, including national treatment, non-discrimination, reciprocal market access, transparency, protection of intellectual property rights (IPR), binding dispute settlement, trading rights, judicial review, uniform application of laws, and adherence to state-trading subsidy programs. Once a member of the WTO, China will be subject to the force and scrutiny of the global trade community as opposed to the U.S. acting alone.

In order to effectively secure the full benefits of China's market-opening commitments, the U.S. must extend "permanent MFN." The WTO's "unconditional MFN" clause, set forth in GATT Article I, requires all members to provide unconditional MFN to every other member. If the U.S. continues to "condition" China's MFN status on annual reviews, China would have the legal right, under WTO, to withhold the full benefits of the agreement.

We support the role of Congress in consulting on the terms on any WTO accession protocol. However, we oppose new legislation that would require Congress to formally ratify China's accession and add new statutory pre-conditions. This invites camouflaged protectionist measures.

For over two decades, U.S.-China commercial relations have been defined by the Jackson-Vanik Amendment to the Trade Act of 1974, which is an outdated provision, implemented during Cold War conditions. By law, Jackson-Vanik relegates the U.S. to a second-class commercial relationship with China. The U.S. stands alone in this policy. All other major exporting nations grant China permanent, unconditional MFN. The U.S. restrictive policy only serves to isolate U.S. companies, workers and farmers in the Chinese marketplace. Jackson-Vanik is a constant cloud of uncertainty over the entire U.S.-China relationship, driving Chinese purchasers to source from their more reliable European, Japanese, Canadian or Australian counterparts.

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.

China is facing great pressure to devalue the yuan. Revocation of MFN might be the inciting incident causing it to abandon its current self-restraint. A devaluation of the yuan would have severe economic, political and social consequences for Asia and the rest of the world. Ultimately, U.S. exporters would pay a heavy price.

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.

**Religious Freedom:
A Report of the U.S. Religious Leaders Delegation
to the People's Republic of China
February 1998**

By

Dr. Donald Argue
President, National
Association of
Evangelicals

Most Rev. Theodore E. McCarrick
Archbishop of Newark

Rabbi Arthur Schneier
President, Appeal of
Conscience Foundation

I. INTRODUCTION

For three weeks in February 1998, a delegation of three U.S. religious leaders made an historic visit to the People's Republic of China. Selected by President Clinton, and specially invited by President Jiang Zemin, we undertook a mission to begin a dialogue with top government officials in China on the subject of religious freedom—the first of its kind.

The reports of our delegation's activities within official circles, as well as in the Chinese press, indicated that religion is now higher on the agenda in China than ever before. Media coverage in the U.S. is evidence of the importance Americans place on this issue as well. Extensive official Chinese press coverage did not simply present our visit as evidence of complete religious freedom in China, but allowed that there are differences in perception of religious freedom between our two countries and recognized that it is an important consideration in U.S.-China relations.

We met the leaders of all major religious groups. We visited temples, churches, a mosque, monasteries and a nunnery, as well as Catholic and Protestant seminaries. Religious believers, both in registered and nonregistered religious organizations, said repeatedly that our visit had raised the profile of religion in China to a new level and was thus an encouragement to them.

In our exchanges with high level Chinese government officials and with religious leaders—lay and clerical—of official religions, we engaged in ground-breaking discussion about religious freedom. (The five officially recognized religions are Buddhism, Taoism, Islam, Catholicism, and Protestantism.) Both sides politely but firmly voiced criticisms and concerns. With these discussions we were able to broaden awareness of the issues

surrounding religious freedom to sectors of society where such questions had never been raised. We introduced a new perspective on religious freedom to many Chinese officials, and to policy analysts, who have focused on trade, the economy, security, and foreign relations but not on international concern over the persecution of religious believers in China.

This report outlines what our delegation set out to accomplish, and summarizes the outcome of the visit. Unlike previous missions that focused on fact finding, our delegation sought to begin a process of dialogue, building on existing data on the religious situation in China.

II. MISSION OF OUR DELEGATION

The mission of our delegation was to deepen the dialogue between the United States and China on religious policy and practice in a spirit of mutual respect. We met with government and party officials, religious leaders, scholars and individual religious believers in both countries in an effort to seek frank communication and mutual clarification of basic terms and issues related to freedom of religious belief and practice. Our delegation also addressed specific situations, individuals, and groups requiring special attention, especially religious leaders detained as prisoners of conscience.

III. GOALS

1. To bring issues and matters of concern regarding religious freedom and practice to the attention of President Jiang Zemin and high level Chinese government officials.
2. To deepen the dialogue between the U.S. and the P.R.C. on the policy and practice of religious freedom, and to establish conditions favorable to the continuation of that dialogue.
3. To identify to the Chinese government persons and situations in need of special attention because of concerns of religious freedom.

IV. RAISING THE ISSUES

Prior to its departure, our delegation heard concerns related to religious freedom from President Clinton and other leading White House officials, the State Department, members of Congress, scholars, U.S. religious leaders, NGO's and human rights activists. While recognizing that real progress has been made since the institution of economic reforms began in the 1980's, we took the following concerns and issues into meetings with Chinese leaders:

1. The issue of religious freedom can either advance or impede the U.S.-China relationship. Thus there is need for continuing dialogue to resolve concerns about religious freedom in China.
2. Religion plays a positive role in American society. Many American business, government, cultural, scientific, military and community leaders actively practice a religious faith. The majority of religious believers are patriotic, law-abiding citizens.

3. In China, people of faith already play a positive social role in the modernization of their society and could do much more if given the freedom to do so.
4. Americans, accustomed to the separation of church and state, find China's requirement to register religious sites and activities with the Religious Affairs Bureau to be unwarranted government control over religious life. Failure to register should not be dealt with as a matter of criminal law. Many Americans are concerned that believers who choose to practice their religion outside official bounds are subject to harassment and punishment.
5. Religious freedom involves not only freedom of religious belief, but also freedom of religious practice. That includes education and social service. In the People's Republic of China, the concept of religious freedom is limited to worship, which is circumscribed and subject to government control.
6. The faiths of some religious believers in China, including Jews, fall outside of the five religions recognized by the government. Government policy towards these groups needs to be made clear.
7. The "administrative procedure" of "education through labor," a common punishment given to religious believers who participate in unauthorized activities, is out of line with international norms.

V. DEEPENING THE DIALOGUE

In China we engaged in serious discussions at the highest level, beginning with President Jiang Zemin. We met with Liu Yang, Vice Minister of the Ministry of Justice, with Li Dezhu, Vice Minister of the United Front, the organization that oversees the Party's religious policies, and with Ye Xiaowen, Director of the Religious Affairs Bureau, as well as with other leading government officials. We also exchanged views with scholars, religious leaders and individual believers affiliated with official and non-registered churches. Following are some points that came out of these meetings.

1. President Jiang Zemin met with our delegation in Zhongnanhai for over an hour, demonstrating his interest in the issue of religious freedom. We spoke about the value of religion to society, the positive role of religion in the United States, and the genuine concern of American religious believers about the status of religion in China. Questions were raised about why religion must be regulated and why churches must register with the government. We stressed the need for religious believers, particularly Christians, to relate more fully with international church bodies. We explored the possibility of expanded exchanges of religious leaders, scholars, and others between our two countries. We discussed the possibility of normalizing relations with the Holy See.

The president said he believed a main message of the Bible was that "to purify man's soul is lofty work." He observed that the reality of religious practice has not always fulfilled the founders of faiths' ideals. Foreign powers had bullied China during the 19th century, he noted, and many improper acts were carried out in the name of religion. Nevertheless, President Jiang recognized that religion can play a positive role in China, and he showed interest in expanding religious activities there. "Differences can be gradually narrowed and

common ground broadened," he said. President Jiang said that he and the Chinese government would "carefully consider the proposals and concerns" raised by our delegation.

2. Many Chinese leaders are aware that freedom of religion is an issue that has a major impact on the development of U.S.-China relations. A majority of Americans profess some kind of religious belief and view freedom of religion as a basic human right. Many Americans believe that the Chinese government limits freedom of the registered church and represses the unregistered church. Chinese officials deny that anyone in China is jailed because of their faith.

3. The progress of religious freedom in China is linked with the progress of rule of law. Some religious policies are at present implemented unevenly rather than objectively. Like rule of law, freedom of religion is acknowledged by many Chinese leaders to be a goal that is still in progress. We welcomed news of current initiatives in the area of judicial independence. The delegation was concerned with the role of China's security apparatus in regulating religious activities. We sought meetings with officials of the Public Security Bureau, but our requests were not granted.

4. China's leaders expressed concern that uncontrolled religious groups and activists could be a destabilizing factor for the Chinese state. Historically the U.S. and China's experience with the free practice of religion has been very different. Our delegation made every effort to present the case for free religious practice as contributing in a positive way to a nation's development.

VI. IDENTIFYING SPECIFIC CASES IN NEED OF SPECIAL ATTENTION

1. Individuals

In discussions with the Chinese embassy in Washington prior to our visit, and in numerous meetings with the Ministry of Justice, Bureau of Religious Affairs, and other Party and Government Departments, our delegation raised the cases of Pastor Xu Yongze, Bishop Zeng Jingmu, Bishop Fan Zhongliang, Bishop Su Zhimin, Gao Feng, Philip Xu Guoxing, and Abbot Chadrel Rinpoche and asked for their release. In total, a list of 30 pastors, evangelists, bishops, Buddhist abbots, and others believed to be detained or harassed because of religious activities was presented to the Ministry of Justice and to the Religious Affairs Bureau with our request for further information on their cases.

We were pleased to learn of the release of Gao Feng upon our arrival in China.

We requested specifically to see Pastor Xu Yongze, Bishop Su Zhimin, and Bishop Fan Zhongliang, Gendhun Choekyi Nyima (the 8-year-old Panchen Lama who is recognized by the Dalai Lama), all of whom are believed to be in detention or imprisoned. In all cases our requests were denied. In the latter case, we were offered the possibility of seeing the government approved Panchen Lama only, which we declined. We were told that the Panchen Lama recognized by the Dalai Lama is with his parents and well.

We brought to the attention of authorities, and expressed our deep concerns about, the report we received while in China of Philip Xu Guoxing's family being harassed and transported out of their home in Shanghai, allegedly to prevent them from attempting to meet with our delegation.

2. Government Policy Directives

In conversations with the United Front Work Department and numerous other government and religious officials, our delegation presented documentation of a local government's directive to eliminate unregistered churches. We made many inquiries as to the authenticity and origins of this directive, as well as whether or not such repression represents authorized or unauthorized activity. Government officials indicated they would investigate and supply answers to these questions.

3. Two Catholic churches

Our delegation continually stressed the existence of a large underground Catholic church, together with the official Patriotic Catholic Church in China. We pointed out the need to normalize relations between the Catholic Church in China and the Holy See since that would be essential to the life of the two Chinese Catholic communities.

4. Registration of Religious Sites

The government's insistence that religious sites be registered is problematic. The line between Christian house meetings, which technically should not have to register, and churches meeting in homes, which do, appears to be arbitrary. We pressed for clarification on the critical issue of registration of religious sites. The policy is not clear and there are many reports of irregularities in its enforcement. Although failure to register is said not to constitute a crime, yet "setting up illegal organizations" and "holding illegal meetings" are given as reasons why certain religious leaders have been detained and imprisoned.

5. Tibetan Buddhists

In discussions with Ministry of Justice, United Front Work Department, and central government Religious Affairs Bureau officials, as well as Tibetan Autonomous Region government and religious affairs officials, our delegation—the first of its kind to receive permission to make such a visit to Tibet including visiting a Tibetan prison—firmly pursued an inquiry into the role of the Democratic Management Committees, which are unique to Buddhist monasteries. We questioned why leaders of Tibetan monasteries and temples must be selected by these Committees and approved by the Chinese government. We also expressed concern about the Patriotic Education Campaigns to which monks and nuns are subjected. To outside observers, the Democratic Management Committees and Patriotic Education Campaigns seem to be state efforts designed to curtail freedom of religious belief and practice among Tibetan Buddhists. The central government has in recent years granted funds to restore or repair Tibetan temples and monasteries.

Our delegation also inquired into the status of Tibetan prisoners. Government officials in Tibet, like their counterparts elsewhere in China, maintain that religious believers imprisoned in Tibet were imprisoned not for their beliefs but for violations of law such as endangering public security. We questioned this explanation at all official meetings in Tibet.

On visiting the main Lhasa prison, we learned that one out of six prisoners had been monks or nuns. We spoke with two Buddhist nuns in the prison and later sought their release. We also called to the attention of the prison authorities in Tibet the allegations that torture and human rights abuses are present in Tibetan prisons. The warden called these allegations "stories."

On numerous occasions we encouraged the Chinese government to pursue a dialogue with the Dalai Lama.

6. Shanghai Synagogues

We spoke to officials about the role of Judaism in China's history. Mayor Xu Kuangdi of Shanghai, in response to our requests, announced that the premises of Ohel Rachel Synagogue (an important synagogue to the Jewish community during World War II) will be vacated by the Education Commission, its current occupants, and the synagogue restored and declared a historic landmark. We were also pleased to learn that the Ohel Moshe Synagogue will be vacated and restored for use as a museum to remember Jews taking refuge in Shanghai during World War II.

7. Orthodox Church

We called to the attention of the senior officials of the Religious Affairs Bureau the existence of an Orthodox community in Beijing, Harbin, and Shanghai, and urged favorable disposition of outstanding issues with the Orthodox Church.

8. Muslim Concerns

Our delegation made repeated efforts to reach out to Muslim communities before and during the trip. We met with Muslim religious leaders in Beijing, Shanghai, Lhasa, and Hong Kong. We sought clarification both with these religious leaders and with government officials on the current religious conditions in Xinjiang, but were informed that full information was not readily available even to them. Recognizing that the Muslim community is seriously fragmented, some Muslim leaders noted that the Muslim community in China is comprised of various different ethnic groups. We believe that the issue of freedom of religion in China's Muslim communities is a matter of concern requiring special attention.

VII. OBSERVATIONS

1. Signs of Growth

Our delegation saw some signs of progress in the rebuilding of houses of worship and increases in activity and membership in all the major religions. Both official and non-registered Christian churches are reported to be growing rapidly. Official figures currently estimate that there are over 10 million Protestants, about 4 million Catholics, some 100 million Buddhists, 18 million Muslims and 2 to 3 million Taoists. We believe that the actual number of believers far exceeds these official figures.

2. Perspectives

In discussing China's stance toward religion and specific policy measures, government and religious officials consistently stated that during the past twenty years, China has gone from a Cultural Revolution-era (1966-76) policy of completely banning religious activities to a policy of allowing many forms of religious belief and of tolerating organized religious activities that take place under the supervision of the Chinese Communist Party's United Front Work Department via the five recognized religious organizations. This policy shift, officials felt, reflects China's nationwide trend of economic reform, greater social openness, and increasing contacts with the outside world.

In all of our discussions, Chinese officials patiently listened and often recognized that despite progress made on religious freedom in the last 20 years, many more problems need to be solved. Most officials insisted that China is working on solving them. However, many still view religion, particularly among China's large peasant population, as potentially threatening to the unity of Chinese society.

Some Chinese officials are troubled by the emergence of religious groups that are not affiliated with one of the official religious organizations and by international religious contacts that are not conducted via government approved channels. Dialogue on the topic of religious freedom is often tainted by Chinese officials' resentment that China's internal practices must be held accountable to what they see as an ever-critical American public, U.S. Congress, media and activist groups.

3. Hong Kong

About 43 percent of the 6.3 million population of what is now the Hong Kong Special Administrative Region participate in religious practices, with Buddhism and Taoism having the most adherents. Reflecting the vitality of all the faiths, which work closely together, the religious communities contribute a share of educational, health and welfare programs out of proportion to their size. Although Catholics and Protestants make up less than 10 percent of the population, they provide roughly 60 percent of the territory's social services, and run 40 percent of schools and universities and 25 percent of the territory's hospitals and clinics. Hong Kong government leaders, including Chief Executive Tung Chee Hwa, recognize the long-standing contribution of religious groups to the development of Hong Kong and pledge continued government support for church-run educational, medical, and social service organizations.

Local religious leaders in Hong Kong maintain that official attitudes towards religion have not changed since the transition to Chinese rule. Some religious leaders did voice concerns about the Mainland's tightening of religious control in recent years and possible future curtailment of religious freedom in Hong Kong. Hong Kong-based Buddhist and Taoist leaders, however, expressed optimism, saying that they have more opportunities to interact with other parts of China now than before.

4. Looking to the Future

The fact that officials were willing to hold discussions on the topic of religious freedom indicates hope for narrowing the differences between the two countries' perceptions of the appropriate role for religion and religious freedom in a modern society.

We were encouraged to find that many of the government leaders and citizens we met, people who are daily struggling to help China modernize, realize that tolerance of religious freedom is an important characteristic of all advanced, industrialized nations. Our delegation was able to further the case for the importance of religious tolerance to the development of a modern society. We believe that with perseverance many of the currently narrow interpretations of religious freedom in China may indeed be broadened.

VIII. RECOMMENDATIONS

We feel that the goals described our mission statement were largely achieved. Our delegation started a process, and much more needs to be accomplished.

1. We encourage President Clinton and Secretary of State Madeleine Albright to reinforce the concerns we have raised and continue the dialogues we began with President Jiang. In advance of President Clinton's scheduled visit to China, concrete responses should be sought to the individual cases we presented to Chinese officials.

2. The need for a channel to continue the pursuit of our concerns is clear. An organization such as the interfaith Appeal of Conscience Foundation, which has been involved with China since 1981, could help facilitate further discussions and follow-up. The web of mid- to lower-level contacts woven during this visit should be reinforced, the seeds of communication nurtured so that they will flourish. Religious umbrella organizations like the National Association of Evangelicals, the National Council of Churches, and the National Conference of Catholic Bishops, as well as concerned organizations from other religious traditions, should be informed of our delegation's goals and outcome. Members of these organizations and other concerned parties may find ways to continue and build on what we have started.

3. We believe that now is an appropriate time for others to initiate "joint ventures in understanding" between the United States and China relating to religious belief and practice. This is a good time for many reasons, including the current state of U.S.-China relations, China's level of development, and the openness to discussion we encountered during our trip. Although our delegation was only able to visit cities, much of the growth of interest in religion in China is taking place in rural areas. Some initiatives, therefore, should reach out to officials and religious believers in rural areas.

4. At this time the ratio of believers to clergy in China is very high, and the number of believers is growing. Although there are centers for clerical training in China, there remains a need to train more clergy. Specific activities in the area of religious training could include academic and student exchanges between our two countries' theological schools and universities' religious studies departments. In addition, Chinese believers in Hong Kong and other parts of the world could cooperate to supply training centers in China with needed books and materials. Some such activities already exist. We applaud them and would like to encourage further developments.

5. A. We recommend that special attention should be paid to the problems of freedom of religion in Tibet, and to promoting a dialogue between the Chinese government and the Dalai Lama.

B. We recommend that a special effort be made to make known the plight of the people in Northern Tibet due to the extreme weather conditions they have experienced this winter. The help of charitable and humanitarian organizations around the world should be sought to supplement what the Chinese national and local governments are doing to relieve suffering and restore the livestock essential to the Northern Tibetans' way of life. We raised this issue at every official meeting in Tibet. Both the Tibetan Autonomous Region officials and the mayor of Lhasa indicate interest in this possibility.

6. While realizing that dialogue is only one part of a multi-faceted approach to dealing with issues of religious freedom and human rights, we recommend that the kind of dialogue we began be continued and expanded. Dialogue is not a substitute for, nor an alternative to, bilateral and multilateral incentives for improvements in religious freedom. In the final analysis, domestic changes in China itself will be the most effective means of expanding religious freedom.

IX. CONCLUSION

Our delegation would like to thank President Clinton and President Jiang for bringing religious freedom into the agenda of their October, 1997 Washington summit and making our trip possible. Its success may be measured in several ways: by the growth and expansion of dialogues we initiated, by the positive response of China's leaders in the coming months to specific concerns we raised, by the development of the web of contacts we began. We note with satisfaction the decision of the Chinese government to sign the United Nations International Covenant on Civil and Political Rights, which includes guarantees of freedom of religion and assembly. We sincerely hope that the U.S. and China will build on our mission, so that both countries can reap the benefits of religious freedom.

Appendix A
Selected Delegation Meetings in the People's Republic of China

Chinese Government & Party Officials

President Jiang Zemin

Mr. Liu Huaqiu, Director, Foreign Affairs Office, State Council

Ambassador Mei Zhaorong, President, Chinese People's Institute for Foreign Affairs

Mr. Li Dezhu, Vice Minister, United Front Work Department

Ms. Liu Yang, Vice Minister, Ministry of Justice

Ambassador Fan Guoxiang, Member, United Nations Sub-Commission on Human Rights

Mr. Ye Xiaowen, Director, Religious Affairs Bureau

Mr. Chen Huanyou, Party Secretary, Jiangsu Province

Mr. Zhou Mingwei, Director General, Foreign Affairs Office, Shanghai

Mr. Xu Kuangdi, Mayor of Shanghai

Mr. Gu Tingfang, Deputy Director, Religious Affairs Bureau, Shanghai

Mr. Yu Xiaoheng, Vice Director, Religious Affairs Bureau, Sichuan Province

Mr. Jagra Losang-dainzin, Deputy Director, Committee of Nationality and Religious Affairs, Tibet Autonomous Region

Mr. Lhakpa Puntsok, Vice-Chairman, Tibetan Autonomous Region

Mr. Luo Sang Jiang Cun, Mayor of Lhasa City, Tibet

Mr. Zhao Jihua, Deputy Commissioner, Chinese Ministry of Foreign Affairs, Hong Kong

Mr. David Lan, Secretary, Home Affairs, Hong Kong

Mr. Tung Chee Hwa, Chief Executive, Hong Kong

Mr. Daniel Fung, Solicitor General, Hong Kong

Ms. Anson Chan, Chief Secretary, Hong Kong

American Government & Non-Governmental Officials

Mr. Bill McCahill, Charge d'Affairs, United States Embassy, Beijing

Mr. Raymond F. Burghardt, Consul General, Shanghai

Mr. Cornelis Keur, Consul General, Chengdu

Mr. Richard Boucher, Consul General, Hong Kong

The American Chamber of Commerce, PRC, Beijing

B.C. Food Company, Ltd., Nanjing

Amity Printing Company, Ltd., Nanjing

Professor Pu Jiabi, China Director, Heifer Project International, Chengdu

Mr. Frank Martin, President, American Chamber of Commerce, Hong Kong

Dr. Eden Woon, Chairman, Hong Kong General Chamber of Commerce

Academic Scholars

Institute of World Religions, Chinese Academy of Social Sciences, Beijing, Mr. Zhuo

Xinping and Mr. Dai Kangsheng, Deputy Directors

Johns Hopkins Center for Chinese-American Studies, Nanjing University

Center for American Studies, Fudan University, Shanghai

Shanghai Academy of Social Sciences, Mr. Zhang Zhongli, President

Jewish Institute, Shanghai Academy of Social Sciences, Professor Pan Guang

Religious Sites and Religious Communities

Yanjing Union Catholic Seminary, Beijing, Mr. Yin Jizeng, President and Senior Minister
Yonghe Gong (Lama Temple), Jiamyang Tubdan, Abbot and Director, Buddhist
Association of China, Beijing

White Cloud Taoist Temple, Beijing

Dongsu Mosque and Ahungs (Muslim leaders), Beijing

Bishop Fu Tieshan, Chairman, Three-Self Patriotic Movement, Catholic Church of China,
Beijing

A Christian family outside of Beijing

Xuanwumen Catholic Church, Beijing

Chongwenmen Christian Church, Beijing

Ji Ming Si (Nunnery), Nanjing

Bishop Ding Guangxun (K.H. Ting), President Emeritus, China Christian Council,
Nanjing

Nanjing Theological Seminary

Shigulu Catholic Church, Bishop Liu Yuan Ren, Nanjing

A rural church, Tangshan, near Nanjing

A Christian family, Tangshan

East China Theological Seminary, Shanghai

Catholic Sheshan Seminary, Bishop Jin Luxian, near Shanghai

Ohel Rachel Synagogue, Shanghai

Ohel Moshe Synagogue, Shanghai

Cheng Huang Miao (Taoist Temple), Shanghai

Pudong Buddhist Temple, Shanghai

Sichuan Theological Seminary, Chengdu

Jokhang Monastery, Lhasa, Tibet

Potala Palace, Lhasa, Tibet

Buddhist Association, Lhasa, Tibet

Gandan Monastery, Tibet

Buddhist, Taoist, Christian, Muslim, and Jewish representatives, Hong Kong

Bishop Joseph Zen, Hong Kong

Hong Kong Christian Council

Prison Visit

Norbu, Warden, main prison outside of Lhasa, Tibet

Human Rights NGO's and others in Hong Kong

Amnesty International

Hong Kong Human Rights Commission

Justice and Peace Commission, Hong Kong Catholic Diocese

Appendix B
Excerpts on Religious Freedom

Constitution of the People's Republic of China
Article 36

Citizens of the People's Republic of China enjoy freedom of religious belief.

No state organ, public organization or individual may compel citizens to believe in, or not to believe in, any religion; nor may they discriminate against citizens who believe in, or do not believe in, any religion.

The state protects normal religious activities. No one may make use of religion to engage in activities that disrupt public order, impair the health of citizens or interfere with the educational system of the state.

Religious bodies and religious affairs are not subject to any foreign domination.

United Nations Universal Declaration of Human Rights
Article 18

Everyone has the right to freedom of thought, conscience and religion; this right includes freedom to change his religion or belief, and freedom, either alone or in community with others and in public or private, to manifest his religion or belief in teaching, practice, worship and observance.

Hong Kong Basic Law
Article 141

The Government of the Hong Kong Special Administrative Region shall not restrict the freedom of religious belief, interfere in the internal affairs of religious organizations or restrict religious activities which do not contravene the laws of the Region.

Religious organizations shall, in accordance with law, enjoy the right to receive financial assistance. Their previous property rights and interests shall be maintained and protected.

Religious organizations may, according to their previous practice, continue to run seminaries and other schools, hospitals and welfare institutions and to provide other social services.

Religious organizations and believers in the Hong Kong Special Administrative Region may maintain and develop their relations with religious organizations and believers elsewhere.

Appendix C Biographies of Delegates

REVEREND DON ARGUE, ED.D. PRESIDENT, NATIONAL ASSOCIATION OF EVANGELICALS

Reverend Don Argue is president of the National Association of Evangelicals, which counts 43,000 congregations, 49 denominations and 27 million individuals among its members. Reverend Argue has led the NAE in drafting policy resolutions and tracts, including several on the topic of religious freedom around the world. Reverend Argue was appointed as a member of the United States State Department's Advisory Committee on Religious Freedom Abroad in 1996 and also serves as co-chair for the State Department's subcommittee on Religious Freedom and Religious Persecution Abroad. In addition, Reverend Argue co-leads racial reconciliation efforts with the National Black Evangelical Association.

MOST REVEREND THEODORE E. McCARRICK ARCHBISHOP OF NEWARK

The Most Reverend Theodore E. McCarrick has served twenty years as a Bishop, and eleven years as Archbishop of Newark. Archbishop McCarrick has worked with many organizations and the United States State Department to promote understanding in Poland, Romania, Cuba, China, the former Yugoslavia, the former Soviet Union, Vietnam, Philippines, South Korea, Lithuania, Ukraine, Rwanda, and Burundi. He currently serves as a member of the United States State Department's Advisory Committee on Religious Freedom; chairman of the National Conference of Catholic Bishops' International Policy Committee, a trustee for the Appeal of Conscience Foundation and one of fifteen United States bishops to represent the National Conference of Catholic Bishops at the Synod for the Americas.

RABBI ARTHUR SCHNEIER FOUNDER AND PRESIDENT, APPEAL OF CONSCIENCE FOUNDATION

Rabbi Arthur Schneier, internationally known for his leadership on behalf of religious freedom and human rights, established the interfaith Appeal of Conscience Foundation in 1965. He has worked for peace and tolerance in over 30 countries, and has been a driving force for freedom of conscience and interreligious cooperation in the former Soviet Union, Eastern Europe, and the former Yugoslavia. In 1981 he led the first interfaith mission to China. Senior Rabbi of the Park East Synagogue in New York since 1962, he has held leadership positions in national Jewish organizations and is a member of the Council on Foreign Relations. Rabbi Schneier served Presidents Bush and Clinton as Chairman of the U.S. Commission for the Preservation of America's Heritage Abroad. President Reagan appointed him U.S. Alternate Representative to the United Nations and President Carter named him to the U.S. Delegation for the Return of the Crown to Hungary.

Appendix D
Participants in the U.S. Religious Leaders Delegation

Dr. Don Argue
President, National Association of Evangelicals

Most Rev. Theodore E. McCarrick
Archbishop of Newark

Rabbi Arthur Schneier
President and Founder, Appeal of Conscience Foundation

Mrs. Elisabeth Nordmann Schneier

Staff
Dr. David James Randolph, Co-Coordinator
Minister
United Methodist Church of Babylon, NY

Ms. Ying Ma, Co-Coordinator and Interpreter
Research Associate
Council on Foreign Relations

Mr. Brent Fulton
Managing Director
Institute for Chinese Studies, Wheaton College

Reverend Richard Cizik
Policy Analyst
Office for Governmental Affairs
National Association of Evangelicals

Mr. I-Chuan Chen
Interpreter

The delegation was hosted by the Chinese People's Institute for Foreign Affairs.

