U.S.-CHINA TRADE RELATIONS AND RENEWAL OF CHINA'S MOST-FAVORED-NATION STATUS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

JUNE 17, 1997

Serial 105–59

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
51–705 CC WASHINGTON : 1999

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U.S.-CHINA TRADE RELATIONS AND RENEWAL OF CHINA'S MOST-FAVORED-NATION STATUS

TUESDAY, JUNE 17, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:09 a.m., in room 1100, Longworth House Office Building, Hon. Philip Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
June 3, 1997
No. TR–8

CONTACT: (202) 225–1721

Crane Announces Hearing on U.S.-China Trade Relations and Renewal of China's Most-Favored-Nation Status

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S.-China trade relations, including the issue of renewing China's most-favored-nation (MFN) status. The hearing will take place on Tuesday, June 17, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from both invited and public witnesses. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

Non-discriminatory MFN trade status was first granted to the People's Republic of China on February 1, 1980, and has been extended annually since that time. Annual extensions are granted based upon a Presidential determination and a report to Congress that such an extension would substantially promote the freedom of emigration objectives in Title IV of the Trade Act of 1974, the so-called Jackson-Vanik amendment. Subsections 402 (a) and (b) of the Trade Act set forth criteria which must be met, or waived by the President, in order for the President to grant MFN status to non-market economies such as China.

The annual Presidential waiver authority under the Trade Act expires on July 3 of each year. The renewal procedure requires the President to submit to Congress a recommendation for a 12-month extension by no later than 30 days prior to the waiver's expiration (i.e., by not later than June 3). The waiver authority continues in effect unless disapproved by Congress within 60 calendar days after the expiration of the existing waiver. On May 29, 1997, President Clinton announced his intention to renew China's MFN status for the period from July 1997 to July 1998. In his report to Congress (House Document 105–86), the President noted China's relatively free emigration policies. Disapproval, should it occur, would take the form of a joint resolution disapproving the President's determination to waive the Jackson-Vanik freedom of emigration requirements for China.

FOCUS OF THE HEARING:

The focus of the hearing will be to evaluate overall U.S. trade relations with the People's Republic of China, and to consider the extension of MFN status for China for an additional year on the basis of that country's emigration performance. The Subcommittee requests testimony on China's emigration policies and practices; on the nature and extent of U.S. trade and investment ties with China and related

issues; and on the potential impact on China, Hong Kong, Taiwan, and the United States of a termination of China's MFN status.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than the close of business, Monday, June 9, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and an IBM compatible 3.5-inch diskette in ASCII DOS Text format, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than close of business, Friday, June 13, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text format only, with their name, address, and hearing date noted on a label, by the close of business, Tuesday, June 17, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text format only.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS__MEANS/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. Good morning. This is a hearing of the Subcommittee on the important question of renewing China's most-favored-nation, MFN, trade status. Each year, as required by the Jackson-Vanik amendment to the Trade Act of 1974, Congress considers the issue of U.S.-China trade relations.

It is important to emphasize that MFN status denotes normal or standard trade treatment which the United States extends to over 150 of our trading partners. I believe it is misleading to characterize MFN as special tariff treatment or an indication that the United States is granting approval to a country's political system.

Although the Jackson-Vanik amendment addresses immigration policy, a long list of other issues that the United States has with China are debated when Congress votes on MFN. In my view, the annual debate is not necessarily constructive and works to reduce our ability to improve the human rights situation in China. Cutting off trade will hinder, not help, the cause of freedom in China because it sacrifices the best tool we have for building channels of communications with the Chinese people.

This year the debate also takes on greater significance for Hong Kong as the territory prepares for the historic reversion from British to Chinese sovereignty at the end of this month. The future well-being of the Hong Kong people, the territory's economic health, and a continuation of its role as a regional and financial center depend on maintaining normal trade relations between the United States and China. Renewing MFN will strengthen the ability of the Hong Kong people to safeguard their way of life after the transition. Loss of MFN would be a devastating blow, fostering instability at an extraordinarily delicate time.

I look forward to hearing the testimony today from our distinguished colleagues and witnesses. Because we must break between 12:30 and 2 p.m., I would ask you to try to limit your oral testimony to 5 minutes and your written statements will be included in the permanent record of the hearing. I would now like to recog-

nize Mr. Matsui, the Ranking Minority Member, for an opening statement.

Mr. MATSUI. Thank you, Mr. Chairman, for holding these hearings today to review the status of U.S.-China trade relations and to prepare ourselves for this year's legislative activity on the renewal of China's most-favored-nation trading status.

Although everyone is familiar, it is worth noting that MFN is nothing more than normal trade status, as the Chairman said in his opening statement. It is not preferential trade status as some would portray it. Indeed, we grant MFN trade status to almost every country on Earth with the exception of half a dozen countries, including North Korea and Cuba.

It is no exaggeration to say the U.S.-China relations will be the key to our peace, prosperity, and stability in the world in the years ahead. However, our relationship with China is multifaceted and complex. How we manage that relationship is one of the greatest foreign policy and trade policy challenges before us as a nation in this century and well into the next. The public debate we have each year about whether to renew MFN for China is not about the goals we seek with respect to China, but rather about the means we use to achieve those goals.

With respect to our goals, we all want China to observe international norms in areas such as human rights, nuclear nonproliferation, and religious freedom. We all want China to provide greater market access for our goods and services. We all want China to participate constructively in the international system and to define their own national interests in a way that is compatible with our own interests and the interests of the other nations of the world. Unfortunately, we disagree among ourselves about the best way to achieve these goals.

As you know, Mr. Chairman, I have argued for many years that withdrawing MFN status from China will not advance our goals toward China but rather will hinder achievement of these goals. I believe that withdrawing MFN from China is tantamount to declaring trade war on China and sending a strong signal to China that we are no longer interested in pursuing a policy of constructive engagement with the Chinese people.

There are those who argue that our policy of engagement with China has been a failure. I think that the record provides otherwise. While we admittedly continue to have our differences with China on a host of issues, we have worked productively with China on nuclear issues, on North Korea, on various U.N. matters such as peacekeeping in the Balkans and sanctions on Libya and Iraq, on the environment, and on intellectual property issues. As Secretary Madeleine Albright has recently stated, we must use a careful mix of targeted incentives and sanctions to narrow our differences with the Chinese.

Revocation of MFN for China would not narrow those differences but magnify them. As such, it would be a major foreign policy mistake. It would also be a major trade policy mistake since it would lead to a severe reduction of U.S. exports to China, a reduction of jobs in this country related to such exports, and an increase in prices for consumer goods. Moreover, it would have a destabilizing

effect on Hong Kong and adverse implications for managing our trade relations with Asia as a whole.

Mr. Chairman, engagement with China is not an endorsement of Chinese policy. Engagement does not mean ignoring our differences; it means actively seeking to resolve those differences. It means protecting our interests when dialog fails to produce results.

We are perfectly capable of taking calibrated actions to protect our interests when circumstances dictate, as we have shown in the past when we have imposed targeted trade sanctions and technology sanctions, monitored and publicized human rights shortcomings, and even engaged in responsive naval and military activities, as we did recently in the case of Taiwan.

In conclusion, Mr. Chairman, let me state again my strong support in favor of continuing most-favored-nation treatment for China. It has been said that we cannot isolate China from the world; we can only isolate ourselves from China. Revocation of MFN will only lead down the road toward isolating ourselves, and surely this is not a policy that serves the best interests of the United States.

Thank you, Mr. Chairman.

[The opening statements of Mr. Ramstad and Mr. Stark follow:]

Opening Statement of Hon. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling today's hearing to discuss US-China trade relations and the renewal of Most Favored Nation (MFN) trade status for China.

Over the last 15 years, we have witnessed noticeable advances in economic and personal freedoms in China. Certainly, increased trade with Western countries has contributed by exposing the people of China to democratic values and practices.

Clearly, however, further improvements in human rights conditions for Chinese citizens must be made, and we must continue to encourage the Chinese Government to adhere to international trade and nuclear proliferation agreements.

It is important that we carefully consider which U.S. policies will most effectively help us achieve these goals. That's why I believe U.S. engagement in China through continued trading relationships is the best way to influence China's policies.

We must also keep in mind that MFN status is not a form of special treatment. MFN refers to the normal, non-discriminatory tariff treatment that the U.S. provides to and receives from its trading partners.

Finally, we must recognize that the U.S.-Sino trade relationship is very important to U.S. businesses and jobs. China is one of the fastest-growing markets in the world and is home to over 1.2 billion people—20% of the world's population. US-China bilateral trade has grown from $2 billion in 1978 to nearly $60 billion in 1996.

Merchandise exports to China alone in 1995 totaled nearly $12 billion, which supported over 170,000 American jobs—jobs that pay 13–16% more than non-trade related jobs. We in Minnesota understand what this means. In 1996, we exported over $60 million worth of goods to the growing Chinese market, and we are currently working on improving that figure through the Minnesota Trade Office's Minnesota China Initiative. The Minnesota state legislature just authorized $350,000 for this effort to establish Minnesota companies as known and preferred vendors in China.

Knowing how crucial a normal, engaged relationship between the US and China is for improving the lives of people in both countries—as well as those of Hong Kong, Taiwan and other Pacific Rim nations—I want to thank you again, Mr. Chairman, for calling this hearing. I look forward to hearing from today's witnesses about the importance and implications of US-China Trade relations and China MFN renewal.

Before the House Ways and Means Committee
on June 17, 1997
Statement of Representative Pete Stark in Opposition of
Most Favored Nation Trade Status for China

Each year the President must seek a waiver from Congress to allow China to keep its Most Favored Nation (MFN) status. Each year, the evidence shows that China does not deserve normal trading status with the United States.

The US trade deficit with China reached $40 billion in 1996 and is expected to reach $50 billion in 1997. The Chinese government continues to transfer dangerous technology enabling rogue nations to develop weapons of mass destruction. But the most flagrant offense committed by China for which they should be denied MFN status is that of continued human rights violations.

Proponents of granting China MFN status allege that human rights conditions in China are improving. Although new and updated laws were introduced in March 1996 in China, with respect to Criminal Procedure Law (CPL) and the Administrative Punishment Law (APL), there has been no fundamental change in the governments' human rights practices.

In fact, the State Department's Human Rights Report shows that human rights in China have deteriorated since the Administration delinked trade and human rights in 1994: "All public dissent against the party and the government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention or house arrest. No dissidents were known to be active at year's end."

China's government continues the use of "Shelter and Investigation," which allows police to detain anyone without charge for up to three months, merely based on the suspicion they may have been involved in a crime. In addition, China continues to use "Reeducation through Labor" to detain dissidents for up to 3 years in labor camps.

In April 1996, the Chinese government engaged in a nationwide campaign to eradicate crime known as the "Strike Hard" campaign. Hundreds of thousands of suspected criminals were arrested, tens of thousands sentenced, and at LEAST 1, 500 EXECUTED. Yet, the U.S. is expected to believe that human rights conditions in China have improved because the laws in China have changed. Unfortunately, only the laws have changed--the practices remain the same.

Criminal suspects are still tortured to force confessions. Beatings and torture to prisoners remains a common practice in China, including: severe beatings, whipping, kicking, the use of electric batons that give powerful shocks, the prolonged use of handcuffs or let-irons and suspension by the arms.

The criminals who are detained and tortured are not necessarily murderers, rapists and child abusers. The criminals I speak of are dissidents whose only crime may be to believe in a religion different from the national prescribed religions.

Article 36 of the Constitution of the People's Republic of China states that: "Citizens of the People's Republic of China enjoy freedom of religious belief..." yet ministers, priests and monks are routinely arrested, imprisoned, tortured and sometimes killed for the mere expression of their faith.

Again, the United States is asked to believe that human rights violations in China are improving simply because the rhetoric is improving. Unfortunately, I have yet to see real evidence to support this claim.

We cannot dictate behavioral change by those who govern China; however, we can change our own behavior and attitudes toward human rights.

We must not be held responsible for aiding China in stripping its citizens of their basic human rights while they emerge as a leading force in our global economy. I adamantly oppose a favored trading status for China and insist we put human rights before U.S. profit.

MFN for China is the wrong message to send to the citizens of China and the wrong message to send to the citizens of the United States.

Chairman CRANE. Thank you for your opening statement and your strong support for extending normal trade status to China.

Let us now begin receiving testimony from our distinguished colleagues. We will begin with Congressman Jerry Solomon and then proceed in the following order: Congressman David Dreier from California; Congressman Sandy Levin from Michigan; Congressman Chris Smith from New Jersey; and Congresswoman Nancy Pelosi from California. And let me again ask you to please try to confine your oral testimony to 5 minutes; everything else will be made a part of the permanent record. Thank you.

STATEMENT OF HON. GERALD B.H. SOLOMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SOLOMON. Thank you, Mr. Chairman, Mr. Matsui, others that might come, and Bill Thomas.

First, let me apologize to the Members, the Chairman, and the panel for having to leave early. We have to arrange the schedule for the remainder of this week and next week, and that is going to be hectic trying to do that.

Second, let me congratulate your Ways and Means Committee. You are the keeper of our tax dollars, and I understand you are going to keep much less of them. And so I am very happy about that.

Mr. Chairman, last, let me say enough is enough is enough. If ever a policy were out of touch with reality, it is our current policy of appeasement toward Communist China. Just look at this headline today: "China Joins Forces With Iran on Short-Range Missile." And let me tell you something, Mr. Chairman: Do you know what that means? It means that innocent human beings are going to be killed because of this appeasement policy. It is going to mean American soldiers and sailors later on if we are inevitably drawn into the Middle East, as we inevitably will be.

And, of course, this continuous unlinked granting of MFN is the cornerstone of that appeasement policy. That is why I have introduced this resolution that would revoke MFN for China, whether on a temporary or permanent basis.

Hardly a day goes by when the economic picture in trade with China does not get worse, and you know it. China's refusal to grant open and fair access to American goods has resulted in our trade deficit with that country skyrocketing to almost $40 billion last year, and toward $50 billion this year. When is that going to stop? When it reaches $100 billion?

The United States, in accepting this free flow of subsidized goods—goods that now overflow in American stores everywhere—has cost thousands of Americans their jobs. I want you all to look around; look at the labels in your shirts. Where were they made? And where were the watches on your wrists made? Go to any store and take a look. Enough is enough is enough.

Free traders keep hoping that U.S. exporters will get access to this vast Chinese consumer market in return for this, but that remains an elusive myth, my friends. American merchandise exports to China totaled only $12 billion in 1996; that is less than one-fifth

of 1 percent of the U.S. economy. Isn't that significant? One-fifth of 1 percent of the U.S. economy.

Mr. Chairman, that is a very slim return when you consider that we give China favorable tariffs on over one-third of their entire exports—one-third. Let's wake up.

But even more important, Mr. Chairman, hardly a day goes by without reading of yet another act of aggression, another act of duplicity, or another affront to humanity committed by this dictatorship in Beijing. We ought to be ashamed of ourselves for putting up with this and doing nothing about it.

Consider human rights: The same people who conducted the massacre in Tiananmen Square and the inhumane oppression of Tibet have been systematically eradicating the last remnants of the democracy movement in China and, as we speak, they are preparing to squash democracy in Hong Kong. Are we going to sit here and let this continue to happen?

According to the U.S. State Department's annual human rights report—and I hope you grill them, they are sitting behind me—let me quote: "Overall in 1996, the authorities stepped up efforts to cut off expressions of protest or criticism." They stepped it up. "All public dissent against the party in government was effectively silenced by intimidation, by exile, the imposition of prison terms, administrative detention or house arrest." That is getting worse, not better. I emphasize the words "stepped up," Mr. Chairman, because human rights in China is getting worse, and you sitting there know it.

That is exactly the opposite of what is supposed to be occurring according to the proponents of the engagement theory. China has also ramped up its already severe suppression of religious activities having, among other things, recently arrested the coadjutor bishop of Shanghai. And what is more ominous, Mr. Chairman—and I think everybody in this room better pay attention to this—is that in the field of national security, we see a relentless Chinese military buildup, evermore frequent exports of technology, of weapons of mass destruction—like chemical weapon factories going into Iran as we sit here right now, carried by some ships by the name of COSCO—and an increasingly belligerent Chinese foreign policy.

While every other country in the world has reduced its military spending, Communist China has increased its military spending by double digits for several years running, this year again by 15 percent, and totaling 50 percent in the nineties. What are they trying to buy with that money? Soviet-made Sunburn missiles from Russia, that is what.

The Sunburn was designed for the express purpose of taking out U.S. ships and killing American sailors, and Communist China is buying it with the express purpose of intimidating the U.S. Navy. Now, who said that? That was said by the top Chinese military leaders in 1993 when they labeled the United States "their international archenemy."

Mr. Chairman, these are the very bitter fruits of engagement. And, Mr. Chairman, one of the most incredible events of the past year is the revelation that the Chinese Embassy here in Washington has sought to buy influence with the U.S. Government through

campaign contributions and conduct economic espionage and national security breaches against the United States.

And almost as bad, Mr. Chairman, at the same time, it has been established that President Clinton met with the head of a Chinese weapons trading firm accused of, among other things, smuggling AK–47 rifles into street gangs in America. And I am going to refer you to an article in today's Los Angeles Times about this guy, John Huang, and what was done; and I suggest you all read it and read it and read it over again. That meeting was arranged by Charlie Trie, an Arkansas entrepreneur with alleged ties to rogue elements in Asia, who along with six others has left the country to avoid testifying about these economic espionage activities and national security breaches.

Mr. Chairman, our China policies are failing before our very eyes and it is high time we all start to wake up to this fact before it is too late.

Mr. Chairman and Members, no MFN was given to the Soviet Union under Ronald Reagan, and peace through strength brought down the Iron Curtain. That is what our policy should be against Communist China today. I am going to tell you—and I am going to be blunt about this—you owe it to your country to cut off this MFN to China until they become responsible participants in human rights behavior around this world. Don't you be responsible for the loss of American lives 5 or 6 or 7 years down the line with this continued appeasement toward this country that calls us their international archenemy.

I thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Gerald B.H. Solomon, a Representative in Congress from the State of New York

Mr. Chairman, If ever a policy were out of touch with reality, it is our current policy of appeasement toward Communist China. And of course, the continuous, unlinked granting of MFN is the cornerstone of that appeasement policy and that is why I have introduced H.J.Res 79, which would revoke MFN for China.

Hardly a day goes by when the economic and trade picture with China does not get worse.

China's refusal to grant fair and open access to American goods has resulted in our trade deficit with that country skyrocketing to $38 billion last year and toward $50 billion this year. The U.S., in accepting this free flow of subsidized goods.....goods that now overflow in American stores everywhere.....has cost thousands of Americans their jobs.

Free traders keep hoping that U.S. exporters will get access to the vast Chinese consumer market in return for this, but that remains an elusive myth.

American exports to China totaled only $12 billion in 1996..... less than ⅕ of 1% of the U.S. economy.

Mr. Chairman, that is a very slim return when you consider that we give China favorable tariffs *on over ⅓ of their exports.*

On other fronts, hardly a day goes by without reading of yet another act of aggression, another act of duplicity, or another affront to humanity committed by the dictatorship in Beijing.

Consider human rights:

The same people who conducted the massacre in Tiananman Square, and the inhumane oppression of Tibet, have been busily eradicating the last remnants of the democracy movement in China.....and as we speak, they are preparing to squash democracy in Hong Kong.

According to the U.S. State Department's annual human rights report, and I quote.....

"Overall in 1996, the authorities stepped up efforts to cut off expressions of protest or criticism. All public dissent against the party and government was effectively

silenced by intimidation, exile, the imposition of prison terms, administrative detention, or house arrest."

I emphasize the words STEPPED UP, Mr. Chairman. Human rights in China are getting WORSE. That is the EXACT OPPOSITE of what is supposed to be occurring according to the proponents of the engagement theory.

China has also ramped up its already severe suppression of religious activity, having, among other things, recently arrested the co-adjutor Bishop of Shanghai.

In the field of national security, what we see is a relentless Chinese military buildup, ever more frequent exports of technology for weapons of mass destruction, and an increasingly belligerent Chinese foreign policy.

While every other major country has reduced its military spending, Communist China has increased its military spending by double digits for several years running, this year again by 15%. What are they buying with that money? Soviet made Sunburn missiles from Russia, that's what. The Sunburn was designed with the express purpose of taking out U.S. ships and killing American sailors, and Communist China is buying it with the express purpose of intimidating the U.S Navy.

These are the very bitter fruits of engagement, Mr. Chairman.

And Mr. Chairman, one of the most incredible events of the past year is the revelation that the Chinese embassy here in Washington has sought to buy influence with the U.S. government through campaign contributions and conduct economic espionage against the U.S.

While at the same time, it has been established that President Clinton met with the head of a Chinese weapons trading firm, accused of among other things smuggling AK–47 rifles in to street gangs in America..... and that the meeting was arranged by Charlie Trie, an Arkansas entrepreneur with alleged ties to rogue elements in Asia.

We do not know if there was any connection between these meetings and donations and our China policies, but the odor of money and influence peddling has recently spread over this entire debate.

What we do know Mr. Chairman is that our China policies are failing before our very eyes, and it is high time we all start to wake up to this fact before it is too late.

My colleagues, no MFN was given to the Soviets until Ronald Reagan and peace through strength brought down the Iron Curtain, and that should be our policy against Communist China.

Chairman CRANE. Thank you, Mr. Solomon.

Mr. Dreier.

STATEMENT OF HON. DAVID DREIER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. DREIER. Thank you very much, Mr. Chairman. And as I do my whip count, I suppose we should put Mr. Solomon in the undecided column at this point.

I want to thank you for inviting us to once again make our annual pilgrimage before the Trade Subcommittee to discuss an issue which I, frankly, don't believe should come up annually, time and time again. I think that we should try and resolve this issue. But let me say that Jerry is one of my very dearest friends. I have the privilege of serving as the Vice Chairman of the Rules Committee where he is Chairman, and he and I agree on most issues, but, frankly, we do disagree on this. But having said that, I am not going to disagree with him on many of the issues that he raised, which are of understandable concern.

Mr. Matsui said it very clearly: That as we look at this issue, this is not a stamp of approval on the policies of China, with which international norms and the United States of America disagree. So what we need to look at is the fact that the single most powerful force for positive change in the 5,000 year history of China has

been China's market-oriented reforms. And that is why, as we look at every single one of these concerns that Jerry has appropriately raised, it seems to me that what we need to do is to look at the one positive thing and build on that, rather than pull the rug out from under the vehicle which has dramatically improved the lot of the 1.2 billion people of China who have been struggling for some kind of improvement in their standard of living.

Now, we know that "most-favored-nation status" is not the appropriate euonym to describe our relationship with China. It, in fact, is normal trading relations. And I think if we look at what normal trade relations have brought about in the past couple of decades, they have a history of success.

Now, if we look at the repressive human rights policies of authoritarian regimes in the Pacific rim and in this hemisphere we have, under the policies of Ronald Reagan and George Bush and, in fact, Bill Clinton, seen improvement as we have maintained engagement and trade relations. The two best examples in the Pacific rim are Taiwan and South Korea. It took a half century for Taiwan to move toward democracy following Chiang Kai-shek's move to that island.

Last night, Phil Crane and I were on an airplane and we sat with a fellow from Chile who talked about the fact that it was trade and engagement that brought about the end of Augusto Pinochet's regime there. The same thing happened in Argentina. So this policy of trying to isolate countries, which really means isolating the United States, is wrong. It has been proven to have failed in the past.

Jerry talked about Ronald Reagan's policy and the fact that we didn't have MFN for the Soviet Union. The fact is when Ronald Reagan stood in Berlin and said, "Mr. Gorbachev, tear down this wall," he did so so that those in the Eastern bloc could mingle with the West. And what some of my good friends here are talking about is tantamount to erecting another Berlin Wall—preventing the most populous nation on the Earth from having the chance to mingle with the West.

Look at the positive changes that have taken place following China's economic reforms. I am privileged to serve on the board of the National Endowment for Democracy's Republican Institute; I work with Jennifer Dunn and others. Thanks to our Republican Institute's efforts, we have seen 800 million of the 1.2 billion Chinese people participate in local village elections with noncommunist candidates. We have seen incumbents actually thrown out because of those elections.

The Chinese Government is, in fact, moving in the direction of legal reforms which would recognize the rule of law. The Chinese media is, in large measure because of this global technology that we have today, improving greatly and, in fact, out of the control of the government.

But one of the most important things that we face, Mr. Chairman, as we move ahead, is this issue of Hong Kong. I think that, while many of my colleagues who plan to vote for a resolution of disapproval say, I really don't want to revoke MFN but I want to send a signal, the signal that we are about to send, Mr. Chairman, is not to Beijing, it is to Hong Kong. The likes of Martin Lee and Chris Patten and other strong advocates of democracy and freedom

have said, that it is of little comfort to the people of Hong Kong that if China comes in and rattles our cage our jobs will go to the United States of America.

The one disagreement that I have with Mr. Solomon is that we in the United States of America enjoy the highest standard of living because the world has access to our consumer market. I think we need to recognize that the jobs that have moved to China have moved from other countries in the Pacific rim, and we have to look at our overall trade deficit with that region.

I think that we have a great opportunity to do the right thing, Mr. Chairman, rather than simply do what makes us feel good. Of course, one's gut reaction is, Let's stand up to these people. But you know what? They are not the Soviet Union. They have not exported their revolution into Latin America and taken over their neighbor's territory as the Soviet Union did. Yes, it is very serious. We must as a country maintain our military preeminence in the Pacific rim. Our allies want us to do that. But our allies also want us to make sure that we do not isolate the greatest country in the world, the United States of America, from the most populous country, China.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. David Dreier, a Representative in Congress from the State of California

Mr. Chairman, Members of the Committee, thank you for holding this important hearing on the question of whether the United States should maintain normal commercial relations with the Peoples Republic of China, or undertake to start a trade war with the most populace and fastest growing economy in the world.

Fostering freedom and human rights around the world is a universal foreign policy goal in Congress. That was the case in 1989, when I joined nearly a dozen of my colleagues, Democrats and Republicans, in a march to the front door of the Chinese Embassy to protest the brutal massacre of student protesters in Beijing's Tiananmen Square. It remains a bipartisan priority today because support for freedom and democracy is part and parcel of what it means to be American.

The question of maintaining trade with China does not offer a choice between American jobs and American values. Instead, we must answer the question whether trade sanctions offer an effective means to achieve the goal of bringing democracy and a respect for human rights to China. Be assured, it would be a mistake for China's leaders to interpret this debate over MFN as a weakening of our resolve on human rights.

In looking at conditions in China over the past twenty years, the path to democracy of numerous countries around the globe, and the effectiveness of unilateral economic sanctions to improve human rights for people living under the boot of other repressive regimes, it becomes unmistakably clear that such sanctions will not improve human rights in China. If anything, economic sanctions will set back the cause of freedom.

Achieving greater human freedom in China is an important priority if for no other reason than the fact that one-fifth of the human race lives in that vast country. Today, the Chinese people lack individual rights, political freedom, and freedom of speech, religion, association and the press. Even the most basic human freedom of having children is regulated by the authoritarian national government.

When looking at repression in China, however, I am reminded of the ancient saying that in the land of the blind, the one-eyed man is king. It does no good to evaluate progress toward freedom in China by comparing it to the United States or any other democracy. Instead, an historical perspective is needed.

While China offers a four thousand year story of political repression, some of its bleakest days have come in the past generation. Over 60 million Chinese starved to death during Chairman Mao's disastrous Great Leap Forward, and another one million were murdered by the Communist Government during the international isolation of Mao's Cultural Revolution. The Chinese people were scarred by those brutal events, and no one wants to return to the terror of economic calamity and starvation.

Stapelton Roy, the former American Ambassador to China, put the current conditions in China in the following perspective:

"If you look at the 150 years of modern Chinese history... you can't avoid the conclusion that the last 15 years are the best 15 years in China's modern history. And of those 15 years, the last 2 years are the best in terms of prosperity, individual choice, access to outside information, freedom of movement within the country, and stable domestic conditions."

Today, the Chinese economy is the fastest growing in the world. While many Chinese remain poor peasants, few go hungary, and hundreds of millions of Chinese have seen their lives improved substantially through economic reform. Many enjoy greater material wealth and a greater degree of personal economic freedom. Market reform is the single most powerful force for positive change in China this century, and possibly in that country's long history. The recent economic progress, which has significantly improved living conditions in China, is a profound moral victory. Fostering further positive change is a moral imperative as well.

As reported in the New York Times (March 4, 1997), Zhu Wenjun, a Chinese women living outside Shanghai, has seen her life improve dramatically due to economic reform. Ms. Zhu, 45, quit a teaching job earning $25 a month and works for a company that exports toys and garments and earns $360 a month. "It used to be that when you became a teacher, you were a teacher for life," Ms. Zhu was quoted as saying. "Now you can switch jobs. Now I am talking with people overseas and thinking about economic issues."

Economic reform in China has helped to lift hundreds of millions of hard working people from desperate poverty, giving them choice and opportunities never available before. Hundreds of millions of Chinese have access to information and contact with Western values through technologies spreading across the country, thanks to economic reform and the growth it created. This is a tremendous victory for human freedom. Only 30 years ago, the overriding concern of many Chinese mothers was to keep their children from starving to death. Today, many are like Ms. Zhu. Asked about the downside of her modern life, she responded: "My son is 18, and he is so spoiled. He only wants to wear designer brands."

Americans are justified in their outrage over the Chinese Government's policy restricting families to just one child. This has led many Chinese families to abort female babies in hopes of having a son. Here again, moral outrage and economic sanctions will not be enough to end this violation of basic human rights.

The New York Times reported another encouraging story from inside China that shows how economic reform undermines repression, including China's one-child policy. Ye Xiuying is a 26-year old Chinese woman who runs a small clock shop in Dongguan, a small town in Guangdong Province. Through her own entrepreneurial spirit and energy, she rose from a $35 per month factory job to running her own business and earning up to $1,200 a month. Along with buying a home and looking forward to traveling to the United States, Ms. Ye used $1,800 to pay the one-time government fine so that she could have a second child. "I wanted a girl," she said. "I already had a boy."

The hopeful stories of Ms. Zhu and Ms. Ye have been repeated hundreds of millions of times across China over the past 15 years. That is why Nicholas Kristoff, former New York Times Beijing Bureau Chief, said, "Talk to Chinese peasants, workers and intellectuals and on one subject you get virtual unanimity: Don't curb trade."

The Chinese people are learning first-hand a great truth of the late 20th Century: that market-oriented reforms promote private enterprise, which encourages trade, which creates wealth, which improves living standards, which undermines political repression.

While full political freedom for the Chinese people may be decades away, there are other hopeful signs of change. Today, 500 million Chinese peasant farmers experience local democracy, voting in competitive village elections where of winners are not communist candidates. The Chinese Government is also recognizing that the rule of law is a necessary underpinning of a true market economy. Furthermore, the Chinese media, while strictly censored, is increasingly outside the control of the party and the state. In particular, the spread of communications technology throughout China, including telephones, fax machines, computers, the Internet, satellites and television, is weakening the state's grip on information.

The evidence that market reforms are the main engine driving improved human rights in China is mirrored around the globe. South Korea, Taiwan, Chile and Argentina all broke the chains of authoritarian dictatorship and political repression over the past 25 years primarily because their respective governments adopted market-based economic reforms. As a result, each country grew wealthier and more open, and each eventually evolved into democracies.

The cause of human freedom advanced in those instances where the United States *did not* employ economic sanctions against dictatorships. In contrast, decades of American economic sanctions against Iran, Iraq, Libya and Cuba, while merited on national security grounds, have only led to greater economic and political repression.

The real-world failure of economic sanctions to result in human rights gains has left proponents of sanctions groping for new arguments. The argument du jour is that China is our next Cold War adversary, and since the United States used trade sanctions against the Soviet Union in a successful Cold War campaign, the same strategy should be applied to China.

This line of thinking is fundamentally flawed. A Cold War with China is unthinkable absent the support of our international allies, and the simple reality is that a Cold War strategy would garner no support. During the Cold War with the Soviet Union, the world's democracies by and large saw an aggressive military opponent bent on undermining democracy around the world. Today, China is not viewed as a similar threat to democracy, nor to international peace and security. China's neighbors, while concerned with that country's evolution as a major economic and political power, do not advocate Cold War style confrontation. Our closest allies in Asia (Japan, Korea, Australia, Thailand) strongly oppose economic warfare with China. They see economic reform as a precondition to peace and security in the region.

The unwillingness of our allies to join us in a crusade against China is based largely on the fact that China has not earned international enmity. The Soviet Union conquered its neighbors in Eastern Europe, imposing puppet regimes on previously independent countries. They invaded Afghanistan and instigated violent insurrections throughout Africa, Latin America and Asia. The Soviet Union earned the Reagan label "Evil Empire." Chinese foreign policy, even with its distressing proliferation policies, is in a different league altogether.

Imposing economic sanctions on China would throw away the real progress of the past 15 years and send 1.2 billion people to the darkest days of Maoism. When Ronald Reagan called on Mikhail Gorbachev to "tear down that wall," he demanded freedom for Eastern E of trade sanctions against China, which attempt to erect new walls around the Chinese people.

Economic sanctions, especially when imposed unilaterally, are not an effective tool to promote human rights. Economic sanctions against China would undermine the market reforms that have been the single most powerful force for positive change in that country. They could shatter the hopes and dreams of 20 percent of the human race seeking to rise above the poverty and oppression that has been a staple of Chinese history. Therefore, I look forward to the Ways & Means Committee again rejecting proposals to use trade sanctions against China in the name of human rights.

Chairman CRANE. Thank you.

Now, Mr. Levin.

STATEMENT OF HON. SANDER M. LEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. LEVIN. Thank you. Glad to be with all my colleagues on Ways and Means.

We have not had, in this country, coherent and consistent policies toward China. We no longer have the luxury of not having such policies, and my feeling is this: We don't need a signal, we need a clear set of policies.

As we derive them, let me suggest the following: First, don't varnish the truth. China's record on human rights is appalling. Its economic policies are increasingly troublesome, as are its military policies.

Second, don't assume that natural processes will cure everything. True, in many cases free markets bring other freedoms. But look

at Singapore, for example: It has not happened there or in Malaysia. Also, Hong Kong seems to be moving in the opposite direction.

What we need is a clear set of policies which will effectively apply external pressures to internal ones. I voted for conditioning MFN in 1993 because I thought it might create such pressures. But it turns out it was not an effective policy. In the economic sphere, for example, when the United States is the only nation confronting China economically, entrepreneurs from other nations simply rush in to fill the void. In contrast, the boycott of South Africa worked because it was comprehensive. So what we need is a program—an effective, operative set of policies.

With respect to human rights, there is going to be a meeting of the G–7 in Denver this week. We should confront our allies there to join in the effort to pressure China on human rights.

I want to focus, if I might, on the economic sector. In the decades before this one, competition was mainly between industrialized nations, between the United States, the European Community, and Japan. We had similar economic structures so the emphasis was on cutting tariffs, and then on market access.

But in the last several years, increasingly the competition has been between industrialized and industrializing nations. And this has occurred at the same time that wage stagnation and a striking growth in income inequality has occurred in this country.

So, a basic economic question is this: What is the connection between this changing context of international trade and the economic challenges here at home? I suggest we need to confront this, and generally we have failed to do this.

There are some glimmers of hope. Recently, for example, a Harvard professor, unlike many of his colleagues, said this: "A cornerstone of traditional trade theory is that trade with labor-abundant countries reduces real wages in rich countries or increases unemployment if wages are artificially fixed. So if expanded trade has been a source of many of the good things in advanced industrial economies in the past decades, one is forced to presume that trade also has had many of the negative consequences that its opponents have alleged." We need to face this issue.

When I was with colleagues in Shanghai a few months ago, we saw a new auto parts factory. For the first few years most of the content is going to come from the United States, but 4 or 5 years from now, as China enforces its domestic content law and its technology transfer, this is going to change.

These are not, colleagues, social issues as the Speaker once said. These don't mainly involve labor rights, in the sense that we are worried about the ability of people in other countries to organize, as a matter of altruism. This is not a question of imposing our notion of labor markets and related issues on other countries. That is, after all, what the IMF, International Monetary Fund, and the WTO, World Trade Organization, are all about. So we need to face this issue.

To what extent is this changing pattern of international trade a downward pressure on the American standard of living? Most economists, up to now, have said this is mostly the result of technological change or internal institutional factors. They allocate only

about one-fifth of the phenomenon to international trade and very little, if any, to trade agreements.

But I think that ducks the issue. It ducks the issue in fast track, and it ducks the issue when it comes to China's World Trade Organization, accession.

I sum it up this way, and I feel deeply about it: I am for meeting these issues head on. We can only do that in the context of fast track and WTO accession. We cannot do it through a revocation of MFN. So, for this and other reasons stated earlier, I will support MFN. But at the same time, I will work with others to get the administration to confront these key economic issues, the media to shine light on them, and Congress to play a central role in addressing them as we take up fast track and WTO accession.

The danger is that, after this next spasm of debate over MFN, our Nation will fall back quickly into the polarization that has marked trade issues for decades. Instead of real debate, there would be an easy, reflexive choosing up of sides on the issues of fast track and WTO accession. American families, workers, and businesses deserve better than this from their leaders.

[The prepared statement follows:]

Statement of Hon. Sander M. Levin, a Representative in Congress from the State of Michigan

Thank you, Mr. Chairman and my colleagues, for giving me this opportunity to testify about the renewal of Most Favored Nation trade status for China.

China has emerged in the last decade with dramatically increased economic strength, and its military and strategic position has waxed while that of the former Soviet Union waned. As a result, the relationship between the U.S. and China has been marked by heightened significance, urgency and complexity.

It has happened so rapidly that it is somewhat understandable that our nation has not had coherent, consistent policies toward China.

Events now leave us with no choice but to develop such policies.

As we do so, I urge that we avoid several dangerous temptations.

1. DON'T VARNISH THE TRUTH

The facts seem clear. China's human rights record is appalling; it snuffs out all dissent and is moving to destroy an entire culture in Tibet and curtail many religious activities. Its economic policies have grown increasingly troublesome; China's trade surplus with the U.S. has been mushrooming, overtaking Japan's, as China persists like Japan did 20 years ago in sometimes talking about the international rules of the games but practicing under its own game rules. Its military policies raise disquieting worries about the deepest of concerns: nuclear proliferation.

2. DON'T EXPECT TIME OR "NATURAL" PROCESSES TO BE THE CURE-ALL, OR EVEN A PALLIATIVE

Some argue that as free markets spread in China, freedom and democracy will surely follow. Yet that hasn't happened in Singapore or Malaysia.

Progress requires external and internal pressure. The question is what kind of external pressure we can provide, and whether we can apply it effectively.

If I thought that revoking MFN would achieve overall effective results in one or more of the critical areas, I would vote to do so. In 1993, I voted to condition MFN in order to move the Chinese in appropriate directions. It was worth a try, but it became clear that this approach could not achieve results on a sustained basis. One reason is that when the U.S. is the only nation confronting China, entrepreneurs from other nations simply rush in to fill the void. In contrast, the boycott of South Africa worked because it was comprehensive among nations.

3. DON'T JUST TALK

China is so huge and important that effective policies are not easy to shape. But we have often retained ineffective policies that divert us from the search for better ones. We have been complacent, relying on the annual MFN debate to merely talk

once a year about U.S.-China policy, when what we need is a sustained, vigorous analysis combined with concrete actions.

I believe we must act in the following areas.

With respect to human rights, it is overdue for the U.S. to challenge, indeed confront our allies to join in the effort to help create pressure for change in China. The spasmodic annual debate in Geneva over a resolution of censure or criticism of China is no more effective than the annual Congressional debate over MFN. With new governments in Great Britain and France, the U.S. should take the opportunity of the G–7 summit this week in Denver to put China, including its human rights practices, into the center of the agenda of free nations.

On the economic front, the problems are so compelling that we need to look for real opportunities. I believe there are several, but we will not seize them until we thrash out answers to the central questions which China raises in striking fashion.

The questions are these: Does the changing nature of international competition—from that between industrialized nations to that between industrialized and industrializing nations such as China—pose serious threats as well as opportunities for the American economy, its businesses and workers? And, if so, what are the roles of trade and trade agreements in this transformation, and what, if anything, should be our policy response?

When, in earlier decades, competition was primarily between industrialized nations—principally the U.S., Canada, Europe and Japan—which share common economic characteristics, the primary focus was first on cutting tariffs and later, more controversially, on market access.

Today, competition is increasingly between industrialized and industrializing nations—Mexico, China, India, Indonesia and the like—which have dramatically lower wage and salary levels and often more centrally controlled economies characterized by government intervention in labor markets to artificially deprive workers of wage increases even as productivity rises.

This change in the nature of international competition has occurred during the same period that wage stagnation and striking growth in income inequality have prevailed in the U.S. This has clearly been felt by the families caught in the vice. Former presidential Chief Economic Adviser Laura D'Andrea Tyson recently wrote that growing income inequality has become "the major economic challenge facing the United States."

In the United States, the silent majority is becoming increasingly vocal in its belief that wage stagnation at home is related to global competition with foreign workers making $1.25 an hour. But the usually vocal minority—including economists and most other opinionmakers—has been relatively quiet on this issue.

This dynamic reminds me of the debate during the last decade about Japan trade policy. Early on, an almost solid phalanx of economists and opinionmakers tried at every turn to downplay any economic significance for the U.S. of the efforts by Japan and others to close their markets to our nation's products. Eventually, some broke ranks when the problem proved intractable. Similarly, there have appeared some recent breaches in the ranks on this central issue of the importance of trade policy to wage issues.

Fred Bergsten, head of the "free trade" Institute for International Economics, recently testified that "the main problem facing the American economy is the very slow growth of average living standards over the past generation." And Harvard professor Dani Rodrik, in a book published by IIE, candidly recognizes that "a cornerstone of traditional trade theory is that trade with labor-abundant countries reduces real wages in rich countries—or increases unemployment if wages are artificially fixed;" thus, "if expanded trade has been a source of many of the good things that advanced industrial economies have experienced in the last few decades, one is forced to presume that trade also had many of the negative consequences that its opponents have alleged."

The issue was brought home to me recently when I visited several Big 3 auto plants in Beijing and Shanghai, China. Today, seventy-five percent of the parts used by these plants bear made-in-America labels. But as Beijing enforces its domestic content restrictions and squeezes technology transfers out of foreign investors, those auto parts increasingly will come from China, and the resulting cars will be exported abroad, raising the specter of job losses and business closings in the U.S.

It is time for Congress to seriously consider and debate these issues. So far we have not done so, but instead have focused on labels and slogans:

• In a recent letter to the president, Speaker Newt Gingrich characterized them as "social issues." But they are hard core, bread and butter economic issues.

• Others dismiss them as concerning "labor rights." But what is involved here is not some altruistic concern about the rights of fellow workers to organize in Mexico or China or India. What is in question is our national interest in securing a high

and rising standard of living for our workers or smaller businesses who don't have the option of picking up and relocating to another nation.

• Some argue that we cannot "impose" on other nations U.S. views about the structure of labor markets. But the very purpose of the World Trade Organization and the International Monetary Fund is to "impose" important features of our free market system, including capital and investment structures, on developing nations. Why not other vital features like free labor markets?

• Most of the relatively few economists who have worked on this subject attribute downward pressure on the American standard of living, especially for lesser skilled workers, to technological change or to internal institutional factors such as decreasing unionization, rather than to competition from workers earning $1 and engineers earning $5 an hour in developing nations. While some would allocate one-fifth or so to the impact of growing international trade with these low wage/salary and usually tightly controlled labor markets and other economic structures, they conclude, with little analysis, that trade agreements themselves do not play any such role in depressing the American standard of living.

But these are the very issues that are really bubbling beneath the surface in the debate over Fast Track. There is no way to finesse the issue by some choice of ambiguous language or new euphemism. The issue is, if anything, even more salient in the discussions about China's accession to the WTO. But thus far the evidence is clear that there has not been a meaningful confrontation of these issues in the deliberations over Chinese accession to WTO.

I am for meeting these issues head-on. We can only do that in the context of Fast Track and WTO accession. We cannot do it through a revocation of MFN. So for this and other reasons stated earlier, I will support MFN. But at the same time I will work to get the Administration to confront these key economic issues, the media to shine the light on them, and the Congress to play a central role addressing them as we take up Fast Track and WTO accession.

The danger is that, after the debate over MFN, our nation will fall back quickly into the polarization that has marked trade issues for decades. Instead of real debate, there will be an easy, reflexive choosing up of sides. American families deserve better than this from their leaders.

Mr. THOMAS [presiding]. I thank the gentleman from Michigan. The gentleman from New Jersey, Mr. Smith.

STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SMITH. Thank you very much, Mr. Chairman. And I thank the Subcommittee for the opportunity to testify.

Mr. Chairman, in January 1994, I led the second of three congressional human rights missions to China. During that trip, I stressed the importance of President Clinton's 1993 Executive order, which conditioned future trade relations on significant, substantial progress in a number of human rights areas, including the release of political prisoners and the elimination of practices such as slave labor and the use of torture.

In meeting after meeting, I told the Chinese officials that they had better improve their dismal human rights record or face the economic consequences. They told me rather derisively, dismissively, and candidly that they were not worried at all. The fix was in: Mr. Clinton was bluffing, and they were supremely confident that Clinton would back down and MFN would be renewed for another year.

As it turned out, I was wrong and the Communists were right in their assessment of the administration. President Clinton's notorious delinking of most-favored-nation status—after all the fanfare of linking it to human rights in 1994—was, in my view, the most egregious example of a broader policy in which the U.S. Govern-

ment has brought about an almost total delinking of human rights from other foreign policy concerns. As a matter of fact, Amnesty International testified before my Subcommittee on International Operations and Human Rights and said that with this administration, human rights is an island completely adrift and separated from all other policies, like economic policy.

Although the current administration began by justly criticizing its predecessors for subordinating human rights to other concerns in China and elsewhere—candidate Clinton called it coddling dictators—the Clinton administration has ended up coddling dictators as few have coddled before.

Apologists for Beijing claim that the policy that they call strategic or constructive engagement will encourage the Chinese Government to allow greater freedoms for its citizens and protect U.S. interests in China. However, as my Subcommittee on International Operations and Human Rights has heard time and time again—we had six hearings on this subject in this last Congress—the evidence is to the contrary. While increased contact with the West has changed China's economic system to some degree, it has not increased that regime's respect for fundamental human rights.

Since the delinking of MFN from human rights, conditions have significantly regressed. They have gotten worse in every area, in every category. Today in China there are more political prisoners; there are more summary executions; there are more forced abortions and forced sterilizations; there are more priests, pastors, and Buddhist monks in prison for their faith; there is a more brutal regime in Tibet; there are tighter controls on political and religious expression; and there are more dissidents used as slave labor for export production than back in 1994.

The State Department's human rights report for 1996 reflects the remarkable end result of a policy which fails to seriously address human rights concerns. According to the State Department, in the last year, "All public dissent against the party and government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention, or house arrest. No dissidents were known to be active at year's end." In other words, engagement has failed beyond our wildest expectations; dissent has not just been stifled, it has been silenced altogether.

Ironically, the engagement policy has not only aggravated the human rights situation, it has also injured the very strategic trade interests it was intended to advance. Beijing now regards the U.S. Government as a paper tiger, not only on human rights but on everything else. The Clinton administration has endured one humiliation after another, backing down time and again, not only on human rights but threatened sanctions on nuclear proliferation and trade.

The most recent embarrassment came in December 1996 when the Clinton administration hosted Chinese Defense Minister Chi Haotian, the architect of the 1986 Tiananmen Square massacre. General Chi was accorded full military honors at the Pentagon; met with the President in the Oval Office; was given access to the U.S. military installations, including the Sandia Nuclear Research Facility; and addressed U.S. military officers at the National Defense University. During that speech, General Haotian revealed his

true colors and made the most outrageous assertion possible when he said no one died in Tiananmen Square.

In fairness, not all of the blame for this sharp departure away from human rights and toward an amoral foreign policy falls on the Clinton administration. Our government has been embroiled in a 25-year one-way love affair with the Communist dictatorship in Beijing. The very forces that influenced the Clinton administration to do the wrong thing—short-sighted business executives who put short-term profits ahead of enduring values and career diplomats who think their job is to deal with tyrannical regimes on whatever terms possible—are actively engaged in trying to influence the Congress on the question of MFN.

Whenever those of us who work for human rights begin talking about the need to impose sanctions to discourage Chinese repression, those forces respond with a lecture on the need for constructive engagement. But when their own interests are threatened—for instance, by CD and software piracy—they don't place their faith in the hope that continued openness and exposure to American values will convince the Chinese dictatorship to change their ways. Instead, they work for serious, tangible economic sanctions against the Chinese Government.

I happen to think that they are right. Whatever else the Chinese and Beijing dictatorships may be, they are not stupid. But if economic sanctions are a tool in the war against software piracy, then why not in the war against torture? Why not in the war against religious and political persecution, against forced abortions, against slave labor to produce goods for export?

To those interests that urge MFN status for the Chinese regime, we must ask: Where do you draw the line? Are there any human rights violations so loathsome, any pattern of violation so clear and strong that you would stop doing business tomorrow with a regime that perpetrated them? How many more forced abortions? How many more dying rooms especially for baby girls and the handicapped? How many more arrests and trials and convictions of brave and innocent people like Wei Jingsheng and Harry Wu? How much longer does Beijing have to continue its brutal occupation of the nation of Tibet and its suppression of Tibetan Buddhism, its persecution of evangelical Christians for worshipping outside of the State church or Catholics for believing that their church is headed by the Pope rather than a group of Communists who are part of a bureaucracy? I have yet to hear a good-faith answer to that question.

Let me conclude, Mr. Chairman, by saying that the administration's current policy—which has been best described as aggressive appeasement of Chinese dictators—suggests that America's historic thirst for liberty and justice has been replaced by a base hunger for cheap electronics and inexpensive consumer goods. It is a humanitarian disaster that has resulted in the imprisonment, torture, and death of thousands of Chinese; the absence of political and religious liberties; and the proliferation of nuclear materials and technologies to rogue regimes. Meanwhile, our trade deficit with China will soon exceed $50 billion.

The time has come for a new Chinese policy which includes a credible threat of trade sanctions. MFN for Beijing is just too ex-

pensive, not only for American interests but, above all, for American values.

I thank the Chair, and yield back.

[The prepared statement follows:]

Statement of Representative Christopher H. Smith
Chairman, Subcommittee on International Operations
and Human Rights

In January 1994 I led a Congressional human rights delegation to China. During that trip, I stressed the importance of President Clinton's 1993 Executive Order, which conditioned future trade relations on "substantial progress" in a number of human rights areas, including the release of political prisoners and the elimination of practices such as slave labor and torture. In meeting after meeting I told Chinese officials that they had better improve their dismal record quickly or face the economic consequences. They told me candidly that they were not worried: they were confident Clinton would back down and MFN would be renewed.

As it turned out, I was wrong and the Communists were right in their assessment of this Administration. President Clinton's notorious de-linking of Most Favored Nation status from human rights in 1994 was the most egregious example of a broader policy, in which the United States Government has brought about an almost total de-linking of human rights from other foreign policy concerns. Although the current administration began by justly criticizing its predecessors for subordinating human rights to other concerns in China and elsewhere -- candidate Clinton called it "coddling dictators" -- the Clinton Administration has ended up coddling dictators as few have coddled before.

Apologists for Beijing claim that the policy they call "strategic [or constructive] engagement" will encourage the Chinese government to allow greater freedoms for its citizens and protect U.S. interests in China. However, as my Subcommittee on International Operations and Human Rights has heard time and time again in our public hearings, the evidence is to the contrary. While increased contact with the West has changed China's economic system, it has not increased that regime's respect for fundamental human rights.

Since the de-linking of MFN from human rights conditions we have seen significant **regression** in every area of human rights concern. Today in China there are more political prisoners; there are more summary executions; there are more forced abortions and sterilizations; there are more priests, pastors, and Buddhist monks in prison for their faith; there is a more brutal regime in Tibet; there are tighter controls on political and religious expression; and there are more dissidents used as slave labor for export production than in 1994.

The State Department's Human Rights Report for 1996 reflects the remarkable end result of a policy which fails to seriously address human rights concerns. According to the State Department, in the last year -- and I quote -- "**All** public dissent against the party and government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention, or house arrest. **No** dissidents were known to be active at year's end." (Emphasis added.) In

other words, "engagement" has failed beyond our wildest expectations: dissent has been not just stifled but silenced altogether.

Ironically, the "engagement" policy has not only aggravated the human rights situation, it has also injured the very strategic and trade interests it was intended to advance. Beijing now regards the U.S. government as a paper tiger not only on human rights but also on everything else. The Clinton Administration has endured one humiliation after another, backing down time and again not only on human rights but also on threatened sanctions on nuclear proliferation and trade. The most recent embarrassment came in December 1996, when the Clinton Administration hosted Chinese Defense Minister Chi, the architect of the 1989 Tiananmen Square Massacre. General Chi was accorded full military honors at the Pentagon, met with the President in the Oval Office, was given access to U.S. military installations including the Sandia nuclear research facility, and addressed U.S. military officers at the National Defense University. During that speech, General Chi -- revealing his true colors -- made the outrageous assertion that "not one person died in Tiananmen Square."

In fairness, not all of the blame for this sharp departure away from human rights and toward an amoral foreign policy falls on the Clinton Administration. Our government has been embroiled in a twenty-five year one-way love affair with the communist regime in Beijing. The very forces that have influenced the Clinton

Administration to do the wrong thing -- short-sighted business executives who put short-term profits ahead of enduring values, career diplomats who think their job is to deal with tyrannical regimes on whatever terms seem possible -- are actively engaged in trying to influence the Congress on the question of MFN.

Whenever those of us who work for human rights begin talking about the need to impose sanctions to discourage Chinese repression, those forces respond with a lecture on the need for "constructive engagement." But when their own interests are threatened -- for instance, by CD and software piracy -- they do not place their faith in the hope that continued openness and exposure to American values will convince the Chinese dictatorship to change its ways. Instead they work for serious, tangible economic sanctions against the Chinese government. I happen to think they are right. Whatever else the Beijing dictators may be, they are not stupid. But if economic sanctions are a legitimate tool in the war against software piracy, then why not in the war against torture? Why not in the war against religious and political persecution, against forced abortion, against the use of slave labor to produce goods for export?

To those interests that urge MFN status for the Chinese regime, we must ask: Where do you draw the line? Is there any human rights violation so loathsome, or any pattern of violations so clear and strong, that you would stop doing business tomorrow with any regime that perpetrated them? How many more forced

abortions, how many more dying rooms, how many more arrests and trials and convictions of brave and innocent people like Wei Jingsheng and Harry Wu? How much longer does Beijing have to continue its brutal occupation of the nation of Tibet, its suppression of Tibetan Buddhism, its persecution of evangelical Christians for worshiping outside the state church, or Catholics for believing that the Church is headed by the Pope rather than by a committee of atheists appointed by a dictator? When do we admit that our engagement has not been constructive, that it may even have been destructive of human rights? I have yet to hear a good-faith answer to this question. I, myself, think that that line has long since been crossed.

The Administration's current policy -- which has been best described as "aggressive appeasement" of the Chinese dictatorship -- suggests that America's historic thirst for liberty and justice has been replaced by a base hunger for cheap electronics and inexpensive consumer goods. It is a humanitarian disaster that has resulted in the imprisonment, torture, and death of thousands of Chinese, the absence of political and religious liberty, and the proliferation of nuclear materials and technologies to rogue nations. Meanwhile, our trade deficit with China will soon exceed $50 billion. The time has come for a new China policy which includes the credible threat of trade sanctions. MFN for Beijing is just too expensive, not only for American interests but also for American values.

Chairman CRANE. Ms. Pelosi.

STATEMENT OF HON. NANCY PELOSI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. PELOSI. Thank you very much, Mr. Chairman. I, too, thank you for accommodating to the schedules of Members so that we could participate this morning and to Members of the Subcommittee as well.

Mr. Chairman, this is a very important debate and a very important relationship, the U.S.-China relationship. I agree with my colleague, Mr. Levin, when he says the problem is that we really do not have a policy, a U.S.-China policy that matches the challenge that is there. And I look forward to working with him on where we go from here after this vote takes place. But I think it is very important that we have this debate because it enables us to give lie to some of the representations that are made about U.S.-China trade.

As you know, three of the pillars of our foreign policy are to stop the proliferation of weapons of mass destruction, to promote our economy through U.S. exports, and to promote democratic freedoms. Indeed, these are three of the areas of concern in the U.S.-China relationship because the U.S.-China policy today does not further those goals, those pillars of our foreign policy.

Certainly we must have engagement with China, but the so-called constructive engagement of the Clinton administration is neither constructive nor true engagement in a two-way exchange. I, instead, call upon sustainable engagement, an engagement that enables us to sustain our principles, sustain our economy, and sustain the international security in the world.

My colleagues and, most recently, Mr. Smith have put on the record some of the human rights concerns that we have. Mr. Chairman, with your permission, I would like to submit for the record a couple of statements: One from the China Strategic Institute, one from the International Fellowship of Christians and Jews, and one from the International Campaign for Tibet. These describe the human rights situation and the repression and religious persecution that exist in China today.

My colleague has already mentioned the State Department country report which documents those abuses: That all public dissent against the party and government has been effectively silenced by intimidation, exile, and the imposition of prison terms. I would like to place that in the record as well.

Chairman CRANE. Without objection. So ordered.

Ms. PELOSI. Thank you, Mr. Chairman.

On the subject of proliferation, I will be brief because the time is short. Mr. Solomon mentioned that there was a report in the paper this morning, and here it is. Secretary Cohen says that this month Iran successfully tested a new air-launched antiship cruise missile obtained from China. I would like to submit the Office of Naval Intelligence March 1997 statement for the record as well, which says discoveries after the gulf war clearly indicate that Iraq maintained an aggressive weapons-of-mass-destruction procurement program.

A similar situation exists today in Iran with a steady flow of materials and technologies from China to Iran. This exchange is one of the most active weapons-of-mass-destruction programs in the Third World, and is taking place in a region of great strategic interest to the United States.

You know of some of the other concerns we have—the proliferation of weapons-of-mass-destruction technology to Iran and the proliferation of missile technology to an unsafeguarded country like Pakistan. This proliferation threatens our national security, especially in the Middle East where we spend billions of dollars on Mideast peace. We are sitting back and watching China help arm Iran in a very dangerous way.

But since this is a Subcommittee about taxes, taxation, and tariffs I want to spend most of my time on the issues of trade and jobs.

You will hear that MFN is important for U.S. jobs and for our economy. This argument is an out-and-out hoax in terms of jobs in the United States, in terms of market access for U.S. goods, and in terms of the long-term health of our economy. Less than 2 percent of our exports are allowed into China, while over a third of China's exports come to the United States. For the last 10 years, proponents of the MFN will say, China's exports grew—U.S. exports to China grew 3 times but China's exports to the United States grew 13 times. U.S. exports to China didn't even reach $12 billion last year—an increase of only $200 million from the year before—where China's exports to the United States will grow to over $50 billion, an increase of $6 billion.

This will be the year when the trade deficit will exceed $50 billion with China—a country which refuses market access to most products made in America, which continues to pirate our intellectual property despite the agreement, which insists and demands technology transfer in order for U.S. companies to access the Chinese market. If a country of this size and an economy of this size refuses to play by the rules, it can have a very detrimental effect on the U.S. economy and, unfortunately, will.

Proponents of MFN will say that 170,000 jobs depend on U.S.-China trade; that is a significant number, but by no means the appropriate number for a trade relationship that large. In 1995, it was 150,000; the year before it was 150,000. In 1993, it was 150,000—this is out of a U.S. economy of almost 128 million jobs. So where are these jobs in the U.S.-China relationship? Jobs supported by U.S.-China trade equal only one-eighth of 1 percent, as indicated earlier, of all U.S. jobs.

In the interest of time I am just going to, Mr. Chairman, refer you to a couple of quotes of businesspeople who advocate MFN for China. The manager of Hewlett Packard's Beijing-based subsidiary said—this is in yesterday's Washington Post—"Over time, the use of normal American suppliers will be turned off." Mr. Levin referenced an article titled "Made in China Takes a Great Leap Forward as Experts Turn High-Tech" when he said that in the beginning some jobs are created, but as soon as the technology is transferred and the production is completely transferred, U.S. jobs will disappear. This should be of concern, and I think it must be of concern to this Subcommittee.

In terms of intellectual property, pirated CDs produced in China have been seized in Asia, North and South America, the Middle East, and Eastern and Western Europe. It is estimated that 97 percent of the entertainment software available in China is counterfeit. Again, my statement for the record will go into that more fully.

It is said that it would cost the American consumer $590 million if MFN were revoked. That cost equals 0.9 percent, less than 1 percent of the total U.S.-China trade relationship of $63 billion for last year. It adds up to $2 per American per year.

Just in closing, Mr. Chairman, I want to refer you to a statement of the president of Boeing. In a promotional film Boeing produced to sell planes to China called "China and Boeing Working Together," he said that many parts of Boeing aircraft that fly around the world—not just for China—"bear the stamp Made in China. Every Boeing airplane that travels to China is simply coming home."

Then, in terms of the administration's policy, just last month Commerce's then-Under Secretary for Economic Affairs Everett Ehrlich stated, "China remains the only market in the world where U.S. exports are not growing in the long-term."

So when people say that we want to substitute human rights for jobs, let's get the record straight on the jobs issue: U.S.-China trade is a job-loser for most products made in America. I come from an area built on trade. I have supported GATT and NAFTA, and I even supported President Bush's veto of the textile bill, and I believe that the new economy should be about creating jobs, not protecting them.

But somebody has to draw the line in terms of the unfair trade practices that China continues and insists on engaging in. The administration is not getting the message that promoting U.S. exports means promoting U.S. exports, not promoting profits for some exporting elites at the expense of most products made in America.

In closing, I would say that, yes, 170,000 jobs is an important number of jobs but not enough in the relationship. There are reasons why people will say that we should not criticize China. Well, I think this is a very healthy debate, and I would say that the mitigating arguments that people make about China by no means offset the aggregating factors about our not being able to live up to our principles.

Let's have sustainable engagement, sustain our principles of democratic freedom, sustain our economy, sustain international security. Let's have a policy that we judge as to whether it makes the trade fairer, the people freer, and the world safer.

And with that, Mr. Chairman, I thank you once again for your hospitality this morning and submit the rest of my statement for the record. Thank you.

[The prepared statement and attachments follow:]

Statement of Hon. Nancy Pelosi, a Representative in Congress from the State of California

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify on the President's request to grant Most Favored Nation (MFN) status to China. As we are all acutely aware, granting unconditional MFN to China is a contentious decision. Indeed, by a margin of 67% to 27%, the American people believe that China should improve human rights or lose its current trade status (Wall

Street Journal/NBC Hart & Teeter poll, May 2, 1997). It is critical that the issues in the U.S.-China relationship receive a full and open public airing.

I will start by saying that we all agree that the U.S.-China relationship is an important one and that we want a brilliant future with China, diplomatically, politically, economically and culturally. However, the Administration's policy of so-called constructive engagement is neither constructive nor true engagement.

President Clinton has said that promoting democratic freedoms, stopping the proliferation of weapons of mass destruction and promoting U.S. exports are pillars of our foreign policy. Indeed, since the Tiananmen Square massacre of 1989, concern in Congress about the U.S.-China relationship has focused on these three areas: China's violations of our trade agreements, proliferation of weapons of mass destruction, and human rights abuses. In each of these important areas the Administration's policy of so-called "constructive engagement" has not succeeded. In fact, there has been marked deterioration, not improvement, under the Administration's policy.

Since the main topic of this hearing is trade, I will focus my remarks on trade, and will submit a longer statement for the record.

TRADE

The current trade relationship, characterized by barriers to U.S. goods and services, piracy of U.S. intellectual property, and China's demand for technology and production transfer, is of grave concern and is unsustainable for our economy. The U.S. deficit with China has steeply climbed from $3 billion at the time of the Tiananmen Square massacre in 1989 to over $50 billion projected for 1997.

You will hear that MFN is important for U.S. jobs and for our economy. This argument is an out and out hoax in terms of jobs in the U.S., in terms of market access for U.S. goods and services, and in terms of the long-term health of our economy.

Less than 2% of U.S. exports are allowed into China, while over 33% of China's exports come to the United States. From 1985 to 1996, U.S. exports to China grew three times, while imports from China grew 13 times. Last year, U.S. exports to China totaled $11.9 billion, an increase of only $200 million from the year before. At the same time, U.S. imports from China totaled $51.4 billion, an increase of $6 billion over 1995. We should be gravely concerned about the lopsided ratio of imports to exports in the status quo. The ratio of U.S. imports to exports with China is 4.3 to 1. With Japan, the country with which we have the largest trade deficit, the ratio of imports to exports is only 1.7 to 1.

China's high tariffs and non-tariff barriers continue to limit access to the Chinese market for most U.S. goods and services, despite the Chinese government's promise to open markets under the 1992 Market Access Memorandum of Understanding. Even the Administration acknowledges this problem. Just last month, then-Undersecretary of Commerce Everett Ehrlich stated, "China remains the only market in the world where U.S. exports are not growing in the long-term."

You will hear that MFN is important for U.S. jobs. This year, President Clinton stated that trade with China supports 170,000 U.S. jobs. That is the exact same number of jobs he cited last year. In 1995, it was 150,000; in 1994, it was 150,000; in 1993, it was 150,000. This is out of an economy with 127,850,000 employed Americans. Jobs supported by U.S.-China trade equal only one-eighth of one percent (.13 percent) of all U.S. jobs. In California alone, we need to create 40,000 new jobs a month to sustain our economy. Where is the job growth from the status quo in U.S.-China trade?

U.S. jobs are being lost through the Chinese government's practice of requiring technology and production transfer. The Chinese government is carefully and calculatedly building its own economic future by acquiring U.S. technological expertise. It allows into China only the goods it wants, and then through mandatory certification of the technology by Chinese research and design institutes, the technology is disseminated to Chinese domestic ventures. While this may benefit a handful of U.S. companies in their efforts to enter the Chinese market, it will not benefit the U.S. workers who are left behind as companies lose their own market share by surrendering their own technology.

As a condition of doing business in China, U.S. companies are often required to agree to export 70–80% of what they produce there. This, too, translates into lost jobs here in the United States. You will hear that the Chinese are producing only low-value, low technology products, so we shouldn't worry. This, too, is not true. In the realm of intellectual property piracy, for example, the Chinese are moving beyond music CDs and into entertainment and business software, which is high-value. The Chinese government is intentionally targeting high-value, high technology products made in the U.S., appropriating our technology, and producing for export.

Sometimes, U.S. companies are intentionally helping them, sometimes they have no choice but to do so. No U.S. jobs are created in a trend summed up by Ken Lodge, manager of Hewlett-Packard's Beijing-based subsidiary, when he said, "Over time, the (use of) North American suppliers will be turned off." (Washington Post, "'Made in China' Takes Great Leap Forward as Exports Turn High-Tech.," June 15, 1997).

Experts tell us that our intellectual property is our competitive advantage in the global economy. Despite the 1995 and 1996 Intellectual Property Rights agreements, piracy of U.S. software and CDs continues in China at an alarming level. Pirated CDs produced in China have been seized in Asia, North and South America, the Middle East, and Eastern and Western Europe. It is estimated that 97% of the entertainment software available in China is counterfeit. It is interesting that, since the 1996 agreement, Chinese capacity to produce pirated product has increased dramatically. In fact, in 1996, despite the agreements, that piracy cost our economy over $2.3 billion.

I would also like to address the arguments of those who say that revoking MFN would dramatically increase cost to U.S. consumers. The proponents of this argument say that it will cost consumers $590 million if MFN were revoked. This cost estimate equals 0.93%—less than one percent—of the total U.S.-China trade relationship of $63.5 billion. It adds up to about $2 per American per year.

And, we are told in this debate, that jobs making products now made in China would not be returned to the United States if MFN were revoked—those jobs would simply move to other low-cost countries. If that is the case, why do people argue that the cost to the consumer would soar, since production would likely to shift to countries like Cambodia and Vietnam, where cost of production is even lower than in China?

It is time, I believe, to redefine the terms of our debate and of our engagement. Rather than so-called "constructive" engagement, from which we have yet to see anything constructive, I believe we should institute a policy of "*sustainable engagement*." This shift is rooted in the knowledge that we cannot as a nation *sustain* the status quo in the U.S.-China relationship in terms of trade, principle, or proliferation. Indeed the current policy is not serving U.S. interests.

On the economic front, the status quo is clearly not sustainable. Instead of continuing to tolerate the enormous trade deficit which is projected to reach $50 billion in 1997, we must use the tools at our disposal to insist on market access.

Sustainability in the trade relationship is best achieved by insisting that China's admission to the WTO be based on commercial terms consistent with its impact as an economic giant. Sustainable engagement does not include permanent MFN. Why would the U.S. give China what it wants most—permanent MFN—unless and until China complies with WTO obligations?

Sustainable engagement must include an end to the demands by China for the surrender by U.S. companies of their technology if U.S. companies wish to manufacture or market their goods in China. That technology and other U.S. intellectual property is our competitive advantage in the global economy.

If China, with its rapid economic growth and its size, is not willing to play by the rules and a sense of fairness in the areas of market access, intellectual property and technology transfer, then the U.S. economy will suffer enormously from the relationship. American workers will pay a big price for our appeasing China economically for a profit for a few companies, many of whom do not even see themselves as American. I would call your attention to the comments of Philip Condit, CEO of Boeing in a March 12 interview with the Financial Times when he said that he would be happy if in twenty years people did not think of Boeing as an American company at all. And, in a marketing tape called, "China and Boeing Working Together, " Mr. Condit says, "Many parts of Boeing aircraft that fly around the world bear the stamp 'Made in China'...Every Boeing airplane that travels to China is simply coming home."

I come to this debate as a Representative of an area built on trade. I have supported NAFTA and GATT, and voted to sustain President Bush's veto of the textile bill. I subscribe to the proposition that the new economy must create jobs, not protect them. However, I believe that our economy is threatened by the unfair trade practices of a giant trading partner whose economic success depends on its access to our markets but which refuses to play by the rules.

PROLIFERATION

In the area of proliferation, too, the Administration's policy of so-called constructive engagement is not sustainable. China continues to transfer nuclear, advanced missile, chemical and biological weapons technology to rogue nations like Iran and non-safeguarded nations like Pakistan and the U.S. continues to ignore these transfers.

Debate about the Chinese government's increased militarization has focused primarily on regional security concerns. While this question may have serious national security implications for the future, China's transfer of weapons and technology of mass destruction to rogue nations like Iran or non-safeguarded countries like Pakistan has immediate implications. These activities threaten to destabilize other regions of the world. The US spends billions of dollars a year to promote Middle East peace. Iran is a threat to that peace and a threat to Israel. We cannot continue to turn a blind eye to China's transfer of dangerous technology into the region.

HUMAN RIGHTS

I urge your serious attention to the State Department's own Country Reports on Human Rights for 1996, released in January 1997, which contains an excellent description of the current state of human rights in China. I would draw your attention particularly to the statements in that Report that,

"The (Chinese) Government continued to commit widespread and well-documented human rights abuses, in violation of internationally accepted norms, stemming from the authorities' intolerance of dissent, fear of unrest, and the absence or inadequacy of laws protecting basic freedoms." and "Overall in 1996, the authorities stepped up efforts to cut off expressions of protest or criticism. All public dissent against the party and government was effectively silenced by intimidation, exile, the imposition of prison terms, administrative detention, or house arrest. No dissidents were known to be active at year's end. Even those released from prison were kept under tight surveillance and often prevented from taking employment or otherwise resuming a normal life."

Since the State Department report was released in February, additional information has been provided to Congress about the Chinese government's repression of basic freedoms and human rights, including: the increased persecution of evangelical Protestants and Roman Catholics in China who choose to worship independently of the government sanctioned and controlled church; forcibly closing and sometimes destroying "house churches" and harassing and imprisoning religious leaders; the increased campaign of repression of the religion, people and culture of Tibet; the threat to currently-existing democratic freedoms in Hong Kong. The takeover of Hong Kong by China is scheduled for July 1, 1997. Already, the Chinese government has moved to disband Hong Kong's democratically elected legislature and to repeal its bill of rights; and; the control of the free flow of information, including restricting access to and use of the Internet and restricting basic economic and business data.

Those who espouse the current policy of so-called constructive engagement characterize those who disagree with them as advocating containment. I take issue with that characterization. I believe that the current U.S.-China policy is a policy of containment. By following a policy which bolsters the Chinese government, the United States is actually supporting the containment of the Chinese people, their hopes and aspirations. China's authoritarian rulers are engaged in active containment of the thoughts, beliefs, and statements of its population because full engagement by the Chinese people with the outside world is a direct threat to their hold on power.

The Administration's policy not only has not worked, but it also cannot be sustained. Of course we need engagement, but the engagement must be real and must allow us to sustain the strength of both economies, to sustain the safety of the world and to sustain our principles.

Because China's economic growth depends on its access to our market, we have leverage with the MFN vote to send a message to the Chinese regime and also to the Clinton Administration that the status quo is not acceptable.

Our vote on this issue is an important one to make trade fairer, people freer and the world safer. I urge my colleagues to vote against MFN for China.

中国战略研究所简报

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THE CHINA STRATEGIC INSTITUTE

ISSUE BRIEF

No. 24
May 22, 1997
ISSN 1093-5150

733 15th St., NW • Suite 700 • Washington, DC 20005 Tel.: (202) 737-0022 Fax: (202) 737-

THE ANNUAL DEBATE ON CHINA'S MFN STATUS

X. Drew Liu

Each year at this time, the American public and the US Congress are torn on the issue of extending MFN (Most Favored Nation) status to China. The debate itself becomes so annoying to the Administration's China policy that Secretary of State Madeleine Albright says she favors permanent MFN status for China. To grant or not to grant MFN status is indeed debatable, but to debate or not to debate is an entirely different matter. The intention to end this debate once and for all is simply wrong and not in the American national interest.

It is the Chinese government which feels most frustrated by the annual debate over MFN status, and it is understandable that it would do everything to make sure that such frustration is felt at the White House. Indeed most people support the president's policy of continuing and expanding trade with China, but this should not be interpreted as this country's putting US dollars in front of US principles. Proving this point is the annual debate on the MFN issue.

Across the Pacific Ocean, behind the few rulers in Beijing, 1.2 billion people are observing this debate closely through foreign broadcasted transmissions. China is a nation disillusioned by communist ideologies and official corruption. The moral vacuum there is made more serious by the regime's crackdown on religious institutions that could serve to fill the vacuum, as they did in other formerly communist countries. The Chinese people are actively searching for a moral order based on principles that the rulers in Beijing cannot offer. That is why there are Chinese people who risk their lives to promote the principles laid down in this country's Declaration of Independence.

The Annual debate on MFN status sends a message to the Chinese people that at least their rights and social justice in general are taken seriously by some people in this country. On the other hand, ending the debate would convey cynicism to these people in China and would tarnish the image of this nation among them.

Entering the post-Deng era, China is uncertain where to turn for its political future. The communist political system is being outgrown by market reform. Its leaders lack the vision to renew China's rich history and tradition in a democratic framework. But most Chinese intellectuals and the Chinese public believe that China's social order and justice can be ensured only in a system of constitutional democracy.

Indeed, without democracy and human rights in China, US-China relations will never be able to reach their full potential in the long run, no matter how cozy such relations may appear in the short run. Therefore, while continuing trade with China is important, I oppose giving up the MFN debate because it is a symbol of the true heart and soul of this nation.

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THE INTERNATIONAL FELLOWSHIP OF CHRISTIANS AND JEWS

Rabbi Yechiel Eckstein, President

April 17, 1997

Religious Persecution in China

The International Fellowship of Christians and Jews believes that the American government must make promotion of human rights and religious freedom a centerpiece of foreign policy decision-making. The Chinese government's continued abuses of human rights in general, and its persecution of Christians and other religious minorities in particular, is a growing concern among all people who value religious freedom.

It is our belief that basic human rights are the foundation of American society and government, and that our government has a moral obligation to promote and foster such rights abroad. The United States should not separate human rights concerns from trade policy lest we become willing accomplices to opponents of human liberty.

Since the Communist takeover in 1949, the Chinese government has waged a brutal and bloody war against people of faith, including Christians, Buddhists and Muslims. As many as 60 million Christians, who refuse to join government-sponsored churches, are forced to practice their faith underground and risk capture, imprisonment, torture and even death. In recent years, these underground centers of religious activity have been the target of Communist Party authorities and military leaders. Thousands of Catholic and Protestant leaders have been jailed, houses of worship have been destroyed. Church leaders agree that the repression of religious activity increased in 1996.

For example, last year Chinese police posted public warnings against propagation activities and illegal gatherings by Catholics. Three Protestants in Shaanxi Province were publicly stripped and beaten until they were unconscious. About 15,000 religious sites were destroyed in Zheijiang Province. In March, just weeks before Easter, Shanghai officials seized all religious items and cash assets of the Catholic Church that were in the possession of Bishop Fan Zhongliang, S.J.

It is estimated that since 1949, the number of religious believers has grown to 70 million – larger than the membership of the Communist Party. The number of Protestant believers alone has increased from 1 million to an estimated 20 million. As the persecution worsens, the Chinese people continue to defy the edicts of their Communist rulers. The American government however, has chosen to ignore their plight in favor of increasing trade.

The Chinese government is guilty of countless human rights abuses against its own people, as documented by the U.S. State Department. Between six and eight million

people are currently held in more than 1,100 slave labor camps in China. Many of the products the U.S. purchases from China were manufactured by slave laborers.

Nevertheless, the United States continues to allow international loans and trade benefits to strengthen the government of China, even while the Chinese people cry out for our support. It is now time for Congress to make basic human rights the priority in American politics and foreign relations. Increasing trade should never take precedence over ending religious persecution and human rights abuses.

All those who value human rights should join the growing number of Americans who wish to aid the Chinese people, and who will not be silent until their oppression has ended.

May 21, 1997

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, D.C. 20515

Dear Congresswoman Pelosi:

I wish to submit, for the May 21 press conference on most-favored-nation (MFN) trade status for China, a brief description of the difficult situation in Tibet and, in particular, China's repression of religious freedom which has worsened in recent years.

In 1994, President Clinton abandoned the use of trade privileges as a mechanism to move China into compliance with internationally-recognized human rights norms. It is now evident that China consequently accelerated its course of repression in Tibet from a negative direction to an extreme degree. In the place of linkage, the Clinton administration has chosen to pursue a policy of "engagement" with China while, ironically, China has taken up the policy of linkage and blatantly doles out significant economic favors to all who are willing to halt criticism of its human rights record. At this year's U.N. Human Rights Commission meeting in Geneva, important U.S. allies in previous efforts to condemn China's human rights record, withdrew their support for lucrative trade contracts with China. Three years after the U.S. delinkage of trade and human rights, President Clinton himself has judged the U.S. engagement policy a failure as China has completely silenced its dissidents and has given up all pretense of tolerance for the distinct cultural, linguistic and religious traditions of the Tibetan people.

We do not know how many political prisoners there are in Tibet today, although some 700 have been at least partially documented. One young Tibetan, Ngawang Choephel, was sentenced in December 1996 to 18 years for videotaping traditional Tibetan music. This extremely harsh sentence was handed down in spite of personal appeals to the Chinese leadership by U.S. Government officials, including Members of the U.S. Congress. It even appears that Ngawang Choephel's status as a Fulbright scholar was used against him by the Chinese authorities who, on this basis, added collusion with the West to his list of so-called espionage charges.

There are reports from Tibet that popular and successful Tibetan language programs at middle schools and universities have been discontinued. While these programs were few in number, they removed the enormous and unfair obstacle of Chinese language proficiency for some Tibetans. Indeed,

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those children in Tibet who are schooled in their mother tongue in the primary grades are blocked from continuing education by obligatory tests administered in Chinese only. This Chinese language-only policy exacerbates the increasingly high drop-out rate for Tibetan children whose schools have taken the brunt of government cut-backs and must operate without resources, including heat. Money for blankets has come to mean no money for food in most Tibetan schools.

It is, however, the lack of religious freedom that is the most revealing of China's malicious intentions in Tibet. The State Department, in its Country Report on Human Rights Practices for 1996 mistakenly qualifies China's actions in Tibet by stating that "the Government does not tolerate religious manifestations that advocate Tibetan independence." The truth is that China has determined to eradicate completely Tibetan Buddhism as an enduring threat to the Chinese communist state. This was China's original motivation for going into Tibet, temporarily laid aside by the threat of international scrutiny, and taken up with renewed verve at the time of delinkage in 1994. The abduction of the child Panchen Lama is yet the most recent symbol of a conscious choice by Li Peng and Jiang Zemin articulated over the last three years, to crush Tibetan Buddhism.

Last month, His Holiness the Dalai Lama visited Washington where he was received in the Congress, the State Department and the White House. At each stop, he was given assurances of support for his proposed negotiations with China on the future of Tibet. Thus far, China has resisted calls for negotiations, and the United States has demonstrated a lack of resolve in pushing China to make concessions in the area of human rights. I would urge the U.S. Government in 1997 to take the kind of stand against China's policy in Tibet that would be experienced in Beijing with the same intensity as was the President's MFN delinkage in 1994. If it is the case that U.S. dollars fuel China's power and its powerful, then U.S. leverage must be of the economic kind to be appreciated.

While the world's sole superpower pursues a China policy that takes the position that the engagement of Western and Chinese businesses will bring about gradual changes in China's human rights policies, it is providing a fig leaf for every Western nation to do business with China regardless of its human rights practices. I urge the United States to go beyond its diplomatic rhetoric, assert its world leadership and elicit significant and positive changes in China's Tibet policy.

Sincerely,

Lodi G. Gyari
President

Chairman CRANE. Thank you, Ms. Pelosi.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

I would only like to make an observation. I don't want to question any of the four witnesses. And I appreciate their points of view and the fact that they have all showed up to testify today.

But I think our problem is—and Mr. Smith said it correctly—that in 1993, when he went to China, the Chinese didn't believe that there would be revocation of MFN status. And I think almost every commentator in this country and certainly almost everybody who followed this issue realized that MFN would not be revoked. As a result of that, it lost its leverage; there was really no leverage in that respect and that has been the problem.

And the problem with this debate today is the fact that we might all agree on the issues that you are raising—the human rights issue, the forced abortions, the issue of Taiwan, the issue of Tibet. We might agree on every one of those issues but, unfortunately, because the debate is on MFN, it comes down to an economic issue, and that is exactly the wrong issue we should be talking with the Chinese about. We make it appear that their market is too important for us to lose. It makes it harder for the President and the U.S. Trade Representative, USTR, and harder for the Secretary of State and others to then argue and negotiate with the Chinese on issues of vital importance.

Somehow we have to move this debate from a trade debate and an MFN debate on human rights to a debate on those issues that all of us, I think, are concerned with. Because the reality is that, yes, we need to try, to the extent possible, to have the Chinese move in the direction where the free world is and some of the Latin American democracies are moving to. But this debate is not a healthy debate at this particular time and the tie-in particularly to MFN status, trade status.

Mr. Smith, you appeared to want to—and Mr. Dreier as well—I didn't expect this, but that is fine.

Mr. SMITH. I do. I thank you for yielding. The real reason why, in 1993 and 1994, the Chinese Government didn't take the threats seriously is that throughout that entire year, if you will recall, the administration sent one mixed signal after another. Various spokesmen and spokeswomen from the administration said one thing while others said another. As a matter of fact, Secretary Warren Christopher, in a rather hurried way, was dispatched—as a matter of fact, he followed my trip by weeks—to lay down the law to the Chinese dictatorship that we meant business, that the President's word was his bond.

The problem was Mr. Clinton's sincerity. And I say that with all respect. When you say something, when you bluff—you should never bluff but when you say, This is a condition—mean it and the world is your oyster. Don't mean it, and these are the repercussions that you will have to endure. So that was first: We lost terribly, I believe, in the eyes of dictatorships around the world—not just in Beijing—when Mr. Clinton delinked human rights with trade.

Second, trade is a very useful way of promoting human rights. If a country will not respect the rights of its own citizenry, why would we believe them on contract law or on intellectual property?

And, as my good friend and colleague Ms. Pelosi said a moment ago, they are violating those kinds of contracts with impunity. When it serves them, they will destroy some pirated disks and make a big show of trying to comply with intellectual property rights. But the bottom line is that when it doesn't serve them, when it means more profits, they do the opposite.

Finally, on South Africa and some of the other places where we have imposed sanctions, some say that they won't work if the whole world community doesn't join in. I supported—throughout the eighties, from day one when I stepped into the halls of Congress in 1981—sanctions against South Africa and took a view contrary to my own party on that. But let me say here, you don't need the whole world to join in. China needs our markets to dump their products. We have leverage; let's use it. Where are you going to find a market to dump $60 billion worth of goods? They do not find it in the European Community.

Mr. MATSUI. Let me just say this, in terms of Secretary Christopher: He truly believed and truly wanted to put pressure on the Chinese. The problem was that we all knew the President was not going to take away MFN status.

Mr. SMITH. Then why say it?

Mr. MATSUI. Well, we should not have said it. That was a mistake. We shouldn't have said it. I think that destabilized, frankly, the relationship. That created a great deal of problems. I agree that it shouldn't have been said. And as a result of that, it has been very difficult to try to get us back to some kind of normalized situation. I agree with you on that.

Let me just say something about the South Africa situation. I was part of that. I supported the sanctions on South Africa; I think over 320 Members did. The problem with South Africa was that it is a very small nation. We had universal support on the sanctions with respect to South Africa, and I remember—I remember that debate very well. The big issue was whether or not coin dealers were going to be hurt; that seemed to be the biggest issue that came out of that. We were not talking about a great economic loss to the United States if we imposed sanctions on South Africa. If you go back and look at the stories, it was about coins—South African coins that coin dealers were not able to get.

Let me go back and talk about the trade deficit issue. What we are finding is symmetry here: As China's trade deficit has gone up, the Four Tigers' trade deficit has gone down. It is a shift in jobs from Korea, from Taiwan, from Singapore, and from Hong Kong. Essentially, you have seen a reduction in exports from those countries into the United States and an increase from China because there has been that kind of a shift in jobs. These were not shifts in U.S. jobs.

Mr. LEVIN. Mr. Matsui—Mr. Chairman, if you would give me 30 seconds to respond.

Chairman CRANE. Well, if you can keep it to 30 seconds.

Mr. LEVIN. I will. It is a mistake to take the economic issues out of the equation. And it is not simply a shifting of jobs from the four to China or whatever. We should not duck those issues. MFN is the wrong forum to do it.

Mr. MATSUI. We shouldn't duck those issues. You and I had discussions on this, and I agree with you. We should look into this issue; we should discuss this issue. But this issue—the matter of the trade deficit with China—is primarily because many of those textile products are being shipped from China to the United States now, and there has been a reduction in those textile——

Mr. LEVIN. In the long term, we need to confront this issue of relations with industrializing nations, including the huge economy of China. I think MFN is not the appropriate arena. We have WTO and we have fast track. And on human rights, we need to look for a policy that will work.

Mr. MATSUI. Sandy, I am not disagreeing with you.

Mr. LEVIN. Right, I just wanted to shape the issue correctly.

Mr. MATSUI. Thank you.

Ms. PELOSI. Mr. Matsui, may I respond?

Chairman CRANE. No. Mr. Thomas.

Mr. THOMAS. Mr. Chairman, thank you.

Obviously, as Members discuss this with Members, we are going to have an opportunity on the floor to do that. This is a long hearing with a lot of folks in it and I don't want to take a lot of time. I just want to ask two questions—one to each of my colleagues—to indicate that perhaps it is a little more complicated than the relatively simple black-and-white that it is often painted in.

First, I would be asking for a relatively brief response from my friend from New Jersey. It makes it more difficult for me to get as worked up as some folks do about the wrongness of this policy when you realize that it was first implemented in 1980 by a Democratic President, and between that Democratic President and this Democratic President there were two Republican Presidents; and unbroken in every year was the granting of MFN to China. Most of us would think that 1997 is not 1980 and that all the arguments that could be conjured up for any given year probably tend to grow stronger as you go back in years.

Does that temper the gentleman from New Jersey at all?

Mr. SMITH. Well, I think we had a preoccupation with the former Soviet Union, its proxy wars, the Contras—all of that took eyes off of the egregious human rights abuses of the Chinese. But it was Tiananmen Square that was the worldwide wake-up call. And once everyone pierced that veil and began to see what was really going on, I think we should not now look askance and suggest that, well, maybe it is not as bad as we thought. It is worse than what we thought.

Mr. THOMAS. I thank the gentleman. And then my friend from Michigan: I do agree with your testimony, that we need policies and not necessarily slogans. One of the points you made was that it is fairly obvious that within the next 5 years or so the Chinese may begin imposing significant domestic content in terms of the building of automobiles in China.

How significantly different is that than the domestic content that we require in the United States for the building of vehicles?

Mr. LEVIN. We don't have domestic content rules.

Mr. THOMAS. I understand we deal with taxes in the way in which domestic content is established.

Mr. LEVIN. We have the most open automotive market in the world.

Mr. THOMAS. There is no relationship or any aspect of our government's tax structure dealing with the content of an automobile, in terms of what percentage is built in the United States? Or isn't that what the gentleman is saying?

Mr. LEVIN. Whatever the policy is, whether it is a luxury tax or whatever, it is very, very small. And this is why I think we need to look at industrializing nations like China——

Mr. THOMAS. There was no battle with, for example, the Honda Manufacturing Co. in terms of whether or not it had a domestic content that reached a certain level based on the subassembly of engine transmissions in vehicles in Canada or the United States?

Mr. LEVIN. That was a rule that went back many, many years.

Mr. THOMAS. I understand. We can get into a discussion of United States-Mexico trade in terms of the argument that the gentleman has made in the past about the content coming from one country or another.

I guess the point I am trying to make briefly, because I agree with most of the points that the gentleman made, was that as we get into this debate and we attempt to paint very clear lines in this debate, I hope at some point our colleagues begin to realize that this is, in fact, very complex, very difficult, historically complicated.

When you are dealing with all of the examples in terms of the way in which the United States treats other countries, I think you do have to focus on the world's most populated country, the world's third largest economy, the country that probably touches on more other countries than any other. None of those should be sufficient to make a decision, but I think all of them are necessary as we move forward.

The way in which China treats its own people is absolutely important and significant. But as we carry out this debate, I hope all of us listen to each other because, probably more so than any debate I have heard, all of us are partially correct. I have not heard any of us be totally correct. It is an extremely complicated issue.

Thank you, Mr. Chairman.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman. I realize that we have other panels and I will be brief.

I would have, for example, liked to ask each Member who believes that we do not have a defined and clear policy with regard to China to explain how they would design their own. I agree with you, and I would be truly interested. But I will not ask that question at this time.

Ms. Pelosi, my friend Phil Condit would probably be troubled but very surprised to hear his comments used in a statement to discourage MFN. And I am sure that he will want to respond to that.

Mr. Smith, I don't know if you know that one of my constituents, Ned Graham, who is the son of Billy Graham, is very much in favor of MFN because disallowing MFN would disallow him the opportunity to distribute Bibles in China, and I think that is an important point that we have got to think about.

I would like to ask Mr. Dreier to expound on his thinking on the trade deficit, or that thing that is called the trade deficit, and also his thoughts on economic sanctions and how effective they are.

Mr. DREIER. Let me be very brief and just respond to one of the items that was raised here if I might, and I thank you very much.

There is a lot of attention focused on the fact that today is the 25th anniversary of the Watergate break-in, and this has been widely carried in the news. But the fact of the matter is, it has also been roughly a quarter of a century since this policy that we now have with China began when Richard Nixon opened up China.

And it strikes me that something that needs to be looked at is how things have changed. Now my very good friend from New Jersey just talked about the fact that we had been focused on the Soviet Union and things had gotten worse. The fact is, if you look at the 60 million Chinese who were starved during the Great Leap Forward under Mao Zedong and the 1 million people who were killed during the Cultural Revolution, as bad as things are today—and as Chris Smith knows, I join him as a very harsh critic of so many of these policies—I argue that they have become significantly better because of that trade opening which has taken place over the past quarter century.

The issue—Bob Matsui raised it and I raised it in my testimony—that you have just addressed, we are all concerned about this issue of trade deficits but, frankly, I think the concern is exaggerated. I am one who prescribes to the term of comparative advantage. I think we as a country are going to do what we do best. And I think that we have tremendous opportunities in China. But there is one telephone for every 1½ Americans and there is one telephone for roughly 175 Chinese. The opportunities that are there are tremendous. I think it is going to ultimately take inclusion in WTO for us to be able to have a real opportunity there.

But I am very, very encouraged, as we look at this global economy, at the potential for U.S. industry in China and I see it as getting better rather than worse. And again, the statement I made is that if you look at the issue regionally, the trade deficit has not gotten to the point that a lot of people have raised.

Mr. SMITH. Would my friend yield?

Ms. DUNN. Yes, I will.

Mr. SMITH. Thank you.

Just very briefly, and for the record I will expound upon it, but last week I offered the amendment that passed on the House floor to boost funding from its current $20 million over 2 years for Radio Free Asia by $70 million—up to $90 million, an additional $70 million. Mr. Dreier and many others joined me in that. There are some things that we can come together on. There is no doubt about that.

But the problem is that this is a dictatorship that takes the measure of whether or not we are serious about human rights, whether or not profits are preeminent or people are preeminent. And I have met with Ned Graham and many others who believe that they can work with this government, but what they fail to see is that—while there may be some proliferation of Bibles throughout China because of their work, and that is a good thing—there are many people who are languishing in prison or being tortured even as we meet here.

During one of my trips to China, I met with Bishop Su—a real Catholic bishop, not paid for by the Government the way the Catholic Patriotic Association is. He said mass for our small delegation. He has already spent more than a dozen years in prison. He was picked up in the next couple of days by the secret police and now he is back in prison for meeting with our delegation.

Wei Jingsheng met with me during the 1994 trip for 3 hours. He was let out by the Chinese Government to hopefully get Olympics 2000. He met with John Shattuck, the point person for the Clinton administration for human rights and democracy. The next day he was picked up by the Chinese dictatorship and he got more than a 12-year prison sentence. If that is not putting the finger in the eye of the dissidents and the human rights activists, I don't know what is. The next day Wei Jingsheng was picked up and he had his kangaroo trial and we all went on record. I offered the resolution asking that he be released and, of course, it didn't happen, and now he is sitting in prison. That shows their contempt for human rights. And these are not American human rights; these are universally recognized human rights.

In the USSR and all these other places, there were also people who, over the years, felt they could work with the Government and get a semblance of religious freedom and had an ability to work with them. Meanwhile, people will languish and be tortured, like Father Calciu in Romania and a host of others through the years who said, I am not going to go along with the program, I am going to speak out on behalf of the gospel. And they find themselves subjected to torture, sleep deprivation, and other hideous things. That is the reality of what this dictatorship is all about. That is why appeasement doesn't work. We need to link arms with the people who are suffering in prison and say, You can have your trade, just let these people go.

Ms. PELOSI. Mr. Chairman, if I may just speak on the trade that Representative Dunn and Mr. Matsui mentioned for 10 seconds. Mr. Matsui was saying this is part of the trade deficit that has gone down from other places. The fact is that the trade surplus that China enjoys creates jobs in China, increases the hard currency for the regime, strengthens their hold on power, and gives us leverage. It doesn't matter where those jobs were before; they are in China now and that gives us leverage. I appreciate you giving me that opening because I didn't say in my statement that I urged the Subcommittee not to approve MFN for China.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

I would just like to ask two questions. If I understand those of you who want to stop the most-favored-nation treatment for China that means, in effect, that you go back to the old Smoot-Hawley track tariffs—which are an average of 60 percent, sometimes up to 100 percent—which, in effect, just cuts off all trade. Is that correct?

Ms. PELOSI. If I may, Mr. Houghton, the fact is we are trying to change U.S.-China policy. MFN is fundamental to that. If it were to go to that, I think that the Chinese would not give up their access to our market.

Mr. HOUGHTON. That is an opinion. But if we cut off the most-favored-nation treatment that, in effect, is what happens statis-

tically; we go back to the old Smoot-Hawley. That is what you are willing to do; is that right?

Ms. PELOSI. That is what we are willing to do to get leverage.

Mr. SMITH. Yes.

Mr. HOUGHTON. The second question is this: If I understand the basis of the Jackson-Vanik waiver, it is if you have freedom of emigration, then the Jackson-Vanik hurdle is no longer there. So are you saying that if the People's Republic of China is acknowledged to have adequate freedom of emigration, then you would favor the most-favored-nation status?

Mr. SMITH. In the eighties, many of us began to look at Jackson-Vanik and its very strict interpretation as not being a very effective tool when it comes to human rights, and the test case for expansion to human rights criteria was Romania. And, as you might recall, Mr. Hall, Mr. Wolf, and I offered the amendments when everybody seemed to be celebrating Nicolae Ceausescu as a man who toed something different from the Kremlin line. Now everybody would acknowledge he was a brutal dictator.

The point is, we were able to successfully take religious persecution and other issues related to human rights and say that unless there is progress in these areas too, because we do have that flexibility, most-favored-nation status will no longer be afforded to you. We passed that in the House as well as in the Senate.

Mr. HOUGHTON. There are 1, 2, 3, 4, 5, 6, 7, 8 countries which must obtain Jackson-Vanik waivers. The People's Republic of China is one of those. So what you are saying is that even though they pass that test, and there is a freedom of emigration policy which is acceptable to the United States, that still does not mean that you would accept the most-favored-nation status?

Mr. SMITH. The average person in China cannot get on a boat tomorrow and find themselves at New York or anywhere else. They don't have that capability, so there may be numbers that suggest——

Mr. HOUGHTON. Let me ask the question again. If the freedom of emigration status were acceptable to you, would you then no longer object to most-favored-nation?

Mr. SMITH. I would still object, but let me say I don't believe it is adequate, either. That is why you have the things like the Golden Venture and other people who are desperately seeking safe haven, who are willing to risk their lives like the boat people who left Vietnam.

Mr. HOUGHTON. So in effect—and I just want to understand this, let me just finish this, Chris—in effect, what you are doing is reading more into the requirements of the statute than exists.

Mr. SMITH. There is precedent for that and the answer is yes, and the President himself did it when he issued his Executive order of 1993 where he had clear criteria and boilerplate language that said significant improvement in human rights.

Mr. LEVIN. Mr. Houghton, can I comment very briefly? I think in 1993 there was an experiment with using MFN on a broader basis than the literal language in the statute. And I would urge that we really need to focus not so much on the literal language, but whether MFN is an effective tool to achieve objectives. I think

the evidence is, on balance, that it is not in any of these areas. I think we should not downplay the significance of these areas.

For example, on our economic relationship with China—the deficit, the meaning of it—I think the minimalists are wrong. I think they should not use that kind of bootstrap argument on whether we should renew MFN or not. I think the reality is that MFN itself is not going to be an effective tool on trade issues, on human rights issues, or on nuclear proliferation issues. And what we need is comprehensive policy.

Ms. PELOSI. Mr. Houghton, may I address your question?

Chairman CRANE. Ask a question of Amo?

Ms. PELOSI. I just wanted to address his question briefly and then I am going to have to excuse myself, Mr. Chairman, because I have to follow Mr. Thomas to the Ethics Task Force. Thank you again for your hospitality this morning.

Mr. Houghton, the issue of most-favored-nation status is as much a goal for some as it is a tactic for some of us. Absent the annual debate, we would not have the opportunity to bring to the floor, in as focused a way, the concerns that we have about trade, proliferation, and human rights. And I also want to say that the expanded view of human rights, in terms of the Jackson-Vanik, is one that we have accepted before.

But the real point that I want to make with you is that the President, when he used the leverage—tried to use the leverage—there was no view in the Chinese mind that this was going to happen, so the leverage wasn't real. But you know what? We had an opportunity. Our sources within the regime told us that the moderates within the regime needed a signal that it was important to free the prisoners and to liberalize the political system. But they did not get that signal; instead they got mixed messages. The Cabinet was going over there saying, Don't worry about it, there is no way he is going to revoke MFN.

So it is important for us to have this debate. And I urge the Subcommittee to not even consider giving permanent MFN to China because I believe MFN is the strongest leverage that our Trade Representative has in the negotiations on WTO. And I agree with Mr. Levin: It should be on commercial terms that China comes into the World Trade Organization. But should they get permanent MFN in advance of that, their motivation to comply is greatly diminished and the leverage of our Trade Representative is greatly diminished. So the idea that we have to do this annually increases our leverage in many areas in the negotiations, including the World Trade Organization.

Mr. Chairman, thank you once again. I am sorry that I have to excuse myself.

Chairman CRANE. You are more than welcome, and I thank all of our colleagues for their participation. Oh, before you leave, Nancy, Charlie has a question.

Mr. RANGEL. Well, if you have to leave, I don't want to make your life more difficult. Besides, I can hold Mr. Smith hostage here.

I find it quite embarrassing for our country to be setting moral standards for other countries. This is basically a foreign policy question, and to some extent I think that those that have responsibility for foreign policy should be given a lot of leeway. And as

it relates to trade, even though technically we have jurisdiction, what the Congress does really impacts not only the relationship that the United States has with China but also with friends and trading partners throughout the world, few who agree with us.

I guess I assumed and developed this attitude in working against the embargo against Cuba. I, unlike most Members of Congress, had an opportunity to talk about it more freely.

Ms. PELOSI. I think you bring up very important points.

Mr. RANGEL. I have been shot by these Chinese Communists. I hated them and they hated me, so I don't have any problem saying I don't like them. I just didn't think cutting off food and medicine to Cuba was the right thing for a great nation like us to do.

Now we get to human rights in China, and I have been there several times, and this is an 800-pound gorilla. These people know we are in a catch-22. There are just too many of them to tell them that the best way to handle their problem is the way we do at home. For example, I would not know how to explain slavery to them. I would not know how to explain lynching to them. I would not know how to take them to our prisons around the country and show them so many people of color who found their way into these prisons or explain how drugs seem to be concentrated in people of certain economic groups. Or how we know as a fact that the CIA, in providing guns to the Contras, hired people that were just bums and they dealt in drugs. We know all of these things.

Even today, as we see the courts change their attitude about bringing all Americans together without regard to color. And I think it is safe to ask, what other country can we think of where we can just look at a person and say, because of the community that you live in, one out of every two kids are going to end up in jail, which we can say about black males in Baltimore—or one out of three from a particular area will go to jail, statistically, which we can say about black males throughout these United States?

And I don't believe that because we have done more and are constantly trying to improve that we should accept conduct that is below a moral standard. But it seems to me when people ask me questions about my life in these United States—and, of course, I have escaped the lynchings and a lot of problems that my people faced—that I cannot in good conscience tell 1.2 billion people what the best way is for them to improve their economic situation. How do you handle that if they ask?

Ms. PELOSI. Mr. Rangel, what I hear you saying is that the United States does not have the moral authority to be a leader, to promote democratic freedoms in the world. That may be the case, but I reject that proposition.

I think that the moral leadership that this country took in terms of South Africa was very significant. Indeed it was a formal policy issue and indeed it was about internal matters in a country. And indeed it was difficult, as you know, from the start. It started with some people resisting, even revoking, MFN for South Africa until the momentum built and the leadership spread throughout the world.

Mr. RANGEL. I don't think you can compare the two.

Ms. PELOSI. You said, how does a country like ours tell another country. I think a country like ours—with the freest constitution in

the world, the greatest democracy in history—has had its problems, there is no question, and continues to do so.

And I agree with you on Cuba. I think that the embargo, especially in terms of food and medicine, is immoral; and we are not talking about an embargo on China. We are saying, with reference to China, let's be willing to do for intellectuals and other people the same as we were willing to do for intellectual property—threaten the increase in tariffs. That is exactly the same thing that we are trying to do.

But if we decide that, because of our internal problems, we should not be promoting democratic freedoms throughout the world—universally-accepted standards of human rights, even as the Chinese Constitution guarantees some of them—then we should not say that it is a pillar of our foreign policy. But we cannot have it both ways.

Mr. SMITH. Will the gentleman yield? I think it is unfortunate that you believe that it is "embarrassing," to use your word, that we should speak out for human rights. The very same argument has been used by every dictatorship that I have ever encountered. Whether it was in Central Europe or the USSR, somehow their boundaries seemed to give them immunity from any kind of criticism. And here we are talking about U.S. policy on trade: We are talking about our importing policy. So it is not just their foreign policy and their "internal affairs." We are talking about our policies as well.

I would ask the gentleman whether or not he supported sanctions on South Africa?

Mr. RANGEL. I don't even compare the two. That was a small country that was dominated by Europeans and a policy supported by the United States where a handful of Europeans controlled the destiny of a majority of people.

Now, I fail to see any comparison between Cuba or South Africa with the People's Republic of China. But I always say—when people say, how could you advocate the same thing against Haiti—that we had all the friends in the world with us in South Africa. South Africa should never be used as an example because we were the last ones to get on the boat. Most of the world agreed that it was immoral, what was going on. And I don't think most of the world shares your opinion on China.

Mr. SMITH. I think most of the world shares the opinion but they are unwilling, because of profits, to put it into practice.

The common thread with South Africa, China, and other dictatorships are victims—people who are tortured, people who in the middle of the night have the secret police come in and haul them away for long periods of detention and torture in order to extract phony confessions. That is the similarity with South Africa and China as it exists today—victims.

Mr. RANGEL. Well, I have had the opportunity to review the Congressional Record during the period of time when American citizens of color were pulled out of their houses, burned, and lynched; and that outrage didn't appear to exist in the Congress. And you may not be embarrassed when these questions are asked of you, in terms of what happens internally. But I am, because I am not in a position ever to be critical of this great republic once I leave it.

But when I am here, and when I am in the Congress, I can give vent to my feelings, and even today see the injustices that are occurring.

But it is embarrassing when I cannot answer those questions that are asked of me overseas. And I will never, never forget that during the winter that I spent in Korea fighting Communists, they would have a plane from the People's Republic of China that would drop pamphlets on us saying, while you are over here fighting, people back home are going to country clubs that you cannot even attend. Why are you getting involved in this civil war? And I guess I said, because President Truman said that we knew better than you do.

So, anyway, I really support your beliefs in human rights. I believe in everything that you do. It is with some satisfaction that I turn this problem over to the President of the United States and that I support our State Department, because I think in this case, no matter what decision we make, it is a very difficult decision.

Mr. DREIER. Mr. Rangel, could I comment very briefly on your statements to say that I agree in part with the argument that you have made. But I disagree slightly in that I am convinced, having just gone through this analysis of the positive changes over the last quarter of a century, that as horrible as things are today—Chris Smith, Jerry Solomon, and I and several of our colleagues are working on ways in which we can use nontrade-related areas to promote the National Endowment for Democracy, Radio Free Asia, and things like that to try and address this question—the single most powerful force for positive change has been this policy of economic reform in China. That has been key to improving the area of human rights, toward lifting the standard of living of 1.2 billion people, toward even undermining the one-child policy there because people are now better equipped to pay the one-time $1,800 fine so that they can have a second child.

So I guess the point that I am making is that our belief in capitalism is so great that it is, in fact, having a positive impact on those concerns which my colleagues here have raised. It is not the panacea. But I think that it would be absolutely ridiculous for us, and a real crime for those 1.2 billion people, if we were to pull away the one very good thing that has happened.

Mr. RANGEL. You just used my time to give an eloquent speech.

Mr. DREIER. I am always glad to do it, Charlie.

Mr. LEVIN. Mr. Rangel, I think the Chairman wants to wrap this up.

Mr. RANGEL. You can speak on my time. Let me thank you, Mr. Chairman. Because this is out of hand, really.

Mr. DREIER. It wasn't until you took over, Charlie.

Mr. RANGEL. Those principles which you think can improve the lives and the conditions of the people in China—you should remember and your leadership should know that the same concerns exist in every poor community we have in the United States. Education, training, jobs, and productivity—if we concentrated on those the same way that you appear to be concentrating in China, I think it would bring us closer together.

Chairman CRANE. All right. We will conclude this panel then with that agreement, and thank you for your participation, colleagues.

Now we shall proceed with Ambassador Barshefsky, the U.S. Trade Representative, and I welcome you back to the Ways and Means Committee and I look forward to hearing your comments on U.S. trade relations with China. Welcome back before the Subcommittee, Charlene, and we are looking forward to hearing your input on U.S. economic relations with China.

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you, Mr. Chairman and Members of the Subcommittee. It is, of course, a pleasure to be here today to discuss the administration's policy toward China and in particular the trade aspects of that policy. Ambassador Eizenstat is here from the State Department and he will round out the discussion.

Our bilateral relationship with China is complex and multifaceted, including political, strategic, human rights, and trade elements. President Clinton has implemented a comprehensive policy with China, one which is based on a continued engagement on the full range of issues. The reason for that policy is clear: U.S. interests are best served by a secure, stable, and open China.

How China evolves over the next decades will be of profound importance to the American people. The manner in which we engage China will help determine if it abides by international norms and becomes integrated into the international community or whether it becomes an unpredictable and destabilizing presence in the world.

We will not achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange; they occurred in times of isolation.

China's adherence to international norms is fundamental to advancing the entire range of issues between our two countries, not merely trade. Through dialog we have built a record of cooperation on agreements to ban nuclear testing, outlaw chemical weapons, and enhance nuclear safeguards. China is a contributor to maintaining stability on the Korean Peninsula and bringing North Korea into peace talks. We have a strong bilateral program to combat alien smuggling, narcotics trafficking, and terrorism. To protect the global environment our two governments have worked together to establish the U.S.-China Environment and Development Fund to discuss collaboration on energy policy and sustainable development. And on human rights, while China's official practices still fall far short of internationally accepted standards, China has made some progress.

Ambassador Eizenstat will discuss this range of issues, but China's adherence to international norms and its inclusion in the world community as a responsible player are the hallmarks of the President's vision with respect to China.

While the Clinton administration policy toward China is thus one of engagement, let me be clear what we mean by engagement. Engagement with China does not mean ignoring our differences. It

means actively engaging China to resolve our differences and it means protecting our interests when consultations do not produce results.

The vote on MFN is a vote on how best to protect our interests. It is not an endorsement of China's policies. It poses, though, a choice between engaging China and making progress on issues that Americans care about or isolating ourselves from China by severing our economic and, in turn, our political relationship. That is, after all, what MFN revocation would do. It would sever the economic and then the political relationship. Our friends and allies, the global community will, of course, continue to conduct normal relations with China, displacing U.S. interests and diluting U.S. influence.

Let me turn to the trade aspects of the administration's policy of engagement and why continuing normal trade relations is in the national economic interest of the United States.

I use the term "normal" trade relations because that is precisely what we are talking about; MFN status is a misnomer. MFN tariff treatment is the standard tariff treatment we accord virtually all governments. It is the normal treatment that the President's waiver seeks.

Trade has played an increasingly central role in our very complex relationship with China. Just as we should not make apologies for China, we should not apologize for our economic interest in China. We cannot ignore the fact that the United States has a significant commercial stake. China is the fastest growing major economy in the world, with growth rates averaging more than 10 percent in recent years. Already possessing the world's largest population, by the next century China will have the world's largest economy.

China is the world's 10th largest trading nation already and the United States' 5th largest trading partner. Our exports to China have quadrupled over the past decade and 170,000 American jobs are related to our trade with China.

The administration's trade policy goals are clear and neither would be furthered by MFN revocation. First, we continue to actively pursue market opening initiatives on a broad scale for U.S. goods, services, and agriculture. U.S. business should have access and the necessary protection for their properties in China's market equivalent to that which China receives here. Especially in light of our trade deficit with China which is due, in part, to multiple overlapping barriers to trade, we must see greater balance in our overall trade relationship, with high growth in our exports to China where U.S. companies maintain comparative advantage.

Second, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade. That is, ensuring that China's trade and economic policies are consistent with international trade practices and norms.

Mr. Chairman and Members of the Subcommittee, neither of these goals will be achieved if MFN is revoked. Rather, bilateral negotiations and the use of targeted trade sanctions where necessary have resulted in landmark bilateral textiles agreements; the intellectual property rights, IPR, agreements; and, of course, the market access agreement with China in 1992. Each of these agreements is based on international norms.

Under the textiles agreements, China's shipments to the United States have been reduced, illegal transshipment punished and, for the first time, market access for U.S. textiles and apparel will be possible.

Under the IPR agreements, China has revamped its entire administrative enforcement regimes for intellectual property protection at both essential and provincial levels. China has imposed harsh penalties and provided market access to our sound recording and motion picture industries. While serious problems remain, particularly in computer software, important progress has been made. And under the 1992 market access memorandum of understanding, MOU, China has eliminated over 1,000 nontariff barriers, made its trade regime more transparent, and lowered tariffs.

While we have made some limited progress on market access for agriculture, the use of unscientific sanitary and phytosanitary barriers to our agricultural trade remains a persistent thorn. This must be rectified, but MFN revocation would only set us back.

Maximizing market access and accelerating the development of the rule of law in China are also at the heart of our accession negotiations into China's entry into the WTO. At this juncture, while China has shown far greater seriousness in the accession talks, China has yet to put forward acceptable market access offers for goods, services, and agriculture. We will continue to work with China on a commercially meaningful protocol of accession—negotiations we should foster rather than jeopardize, were MFN to be revoked.

The effects of MFN revocation go beyond our current bilateral and multilateral initiatives. MFN revocation would cut U.S. exports to China, increase prices for U.S. consumers, and cost jobs in this country. And an added factor this year is the destabilizing effect MFN revocation would have on Hong Kong. We estimate that revocation of MFN would increase tariffs on imports from China to a trade weighted average of about 44 percent from the current level of about 6 percent. Even accounting for changing trade flows, revocation would result in U.S. consumers paying about $590 million more each year for goods such as low-end shoes, clothing, and small appliances.

For manufacturers, the cost of goods made with Chinese components would increase, thereby reducing our competitiveness with our exports. If MFN treatment is revoked, China is likely to retaliate against U.S. exports by increasing tariffs on our products and perhaps taking other measures, exacerbating an already difficult situation.

Our exports to China have nearly quadrupled over the past decade. Those exports support more than 170,000 jobs here. Jobs based on goods exports pay about 13 to 16 percent more on average than nonexport-related jobs. Revoking MFN would jeopardize our exports and our jobs, transferring these opportunities and jobs to Japan, Europe, and other countries.

The situation in Hong Kong this year provides another compelling reason for continuing normal trade relations with China. MFN revocation would deal Hong Kong a devastating blow and would have a destabilizing impact.

Trade is a particularly important part of the economic life of Hong Kong. Somewhere between 50 and 70 percent of U.S.-China trade is handled through Hong Kong, thus making it very dependent on continued normal trade relations between the United States and China. Hong Kong authorities estimate that MFN revocation would slash Hong Kong's trade volume by $20 to $30 billion, resulting in the loss of as many as 85,000 jobs.

Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong leaders—including Democratic Party leader Martin Lee, British Governor Patten, and Anson Chan—have spoken out strongly in favor of renewal of MFN, and their message is the same: Bilateral trade between the United States and China encouraged by MFN provides needed stability for Hong Kong at a time of dramatic change.

Mr. Chairman, as I mentioned earlier, providing MFN tariff treatment is the norm in U.S. trade, not the exception. In every year since 1980, every U.S. President has supported extension of MFN treatment to China. Granting that treatment means that China will receive the same tariff treatment as nearly every other U.S. trading partner. The United States has a long history of providing the same level of tariff treatment to other countries and maintaining normal trade relations with the global community.

Congress has enacted into our law a presumption that normal trade relations will exist between us and these other countries. Maintaining those relations is vital to a broad array of U.S. interests. Maintaining normal trade relations with China is no less vital.

Thank you.

[The prepared statement follows:]

Statement of Hon. Charlene Barshefsky, U.S. Trade Representative, Office of the U.S. Trade Representative

Mr. Chairman, distinguished Members of the Committee, I appreciate this opportunity to discuss the Administration's policy toward China, in particular, the trade aspects of that policy. On May 29, President Clinton sent to Congress the formal waiver recommending extension of MFN treatment to China for another year. The President's decision to renew normal trading relations with China, MFN status, is based upon his judgment about what is in the national interest of the United States.

President Clinton has repeatedly emphasized that America is and will remain an Asian-Pacific power. In a region where we have fought three wars in the last half-century, our role continues to be vital—from the stabilizing effects of our diplomatic and military presence, to the galvanizing impact of our commercial ties. As the Administration has said, our commitment to engagement with China is solid because it is solidly based on American interests.

The Administration has implemented a comprehensive policy with China, one which is based on continued engagement on the full range of issues. The reason for that policy is clear: U.S. interests are best served by a secure, stable and open China. How China evolves over the next decades will be of profound importance to the American people. China's emergence as a modern power is a major historical event. Indeed, no nation will play a larger role in shaping the course of 21st-century Asia. Already, China affects America's vital interests across the board. The manner in which we engage China will help determine whether it abides by international norms, and becomes integrated into the international community, or whether it becomes an unpredictable and destabilizing presence in the world. That is why we have pursued a policy with China of engagement. It is the President's judgment that engagement with China, rather than isolation from it, is in the best interest of the American people. Mr. Chairman, we will not achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange—they occurred in times of isolation.

While the Clinton Administration policy toward China is one of engagement, let me be clear about what we mean by "engagement." Engagement with China does not mean ignoring our differences. It means actively engaging China to resolve our differences and it means protecting our interests when consultations do not produce results.

The vote on MFN is thus a vote on how best to protect U.S. interests, not an endorsement of China's policies. Engagement is not an end unto itself. Engagement is a means by which we can expand the areas of cooperation with China and deal face-to-face with the Chinese on areas of difference.

China's adherence to international norms is fundamental to advancing the entire range of issues between our two countries.Through dialogue, we have built a record of cooperation on agreements to ban nuclear testings, outlaw chemical arms, and enhance nuclear safeguards. China is a contributor to maintaining stability on the Korean peninsula and bringing North Korea into peace talks. We have a strong bilateral program to combat alien smuggling, narcotics trafficking and terrorism. To protect the global environment, our two governments have worked together to establish the U.S.-China Environment and Development Forum to discuss collaboration on topics including energy policy and sustainable development. And, on human rights, while China's official practices still fall far short of internationally accepted standards in areas ranging from the treatment of political dissidents to the continuing problem of prison labor exports, some progress has been made. China has said that it will sign the International Covenant on Economic and Social Rights. It has invited the International Red Cross to China to discuss prisoner issues. Most recently, Chinese courts overturned the conviction of four dissidents. Much more remains to be done, however. The State Department will discuss these and other related areas of engagement in a moment.

The issue before Congress today concerns a choice—between continuing to engage China and making progress on issues that Americans care about—or isolating *ourselves* from China by severing our economic and, in turn, our political relationship. Our friends and allies—the global community—will continue to conduct normal relations with China, displacing U.S. interests and diluting U.S. influence.

Let me turn to the trade aspects of the Administration's policy of engagement and why continuing normal trade relations is in the trade and economic interests of the United States. I use the term "normal trade relations" because that is precisely what we are talking about. Most-favored-nation or MFN status is a misnomer. MFN tariff treatment is the standard tariff treatment we accord virtually *all* governments. This "normal treatment," however, is a critical element of our relationship with China. We cannot determine China's direction, but we can help to influence its direction if we remain fully engaged with China.

MAINTAINING NORMAL TRADE RELATIONS

As I noted, the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. Trade, however, has played an increasingly central role in our relationship. Just as we should not make apologies for China, we should not apologize for our economic interest in China.

We cannot ignore the fact that the United States has a significant commercial stake in China. It is the fastest growing major economy in the world, with growth rates averaging more than 10 percent in recent years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

Today, China is the world's tenth largest trading nation and the United States' fifth largest trading partner. U.S. exports to China have quadrupled over the past decade. At least 170,000 Americans owe their jobs to U.S. exports to China.

The Administration has clear goals that it wants to achieve in its trade policy with China. First and foremost, we continue to pursue actively market opening initiatives on a broad scale for U.S. goods, services and agricultural products. U.S. businesses should have access—and the necessary protection for their properties—in China's market, equivalent to that which China receives in the United States. Especially in light of our trade deficit with China, we must see greater balance in our trade relationship—with high growth in our exports to China in areas where U.S. companies maintain a comparative advantage. Second, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade—that is, ensuring that China's trade and economic policies are consistent with international trade practices and norms.

THE TRADE RELATIONSHIP

The United States is China's largest export market. U.S. imports from China were nearly $51.5 billion in 1996 (or nearly 25 percent of China's exports to the world). By contrast, U.S. exports of goods to China last year stood at only $12 billion. While the large trade deficit with China is the result of many factors, China's multiple, overlapping barriers to trade and investments are clearly of serious concern.

Despite China's movement away from a centrally planned economy toward a quasi-market economy in recent years, China still maintains one of the most protectionist trade regimes in the world. China appears to be following in the footsteps of other major trading nations in East Asia—maintaining export-led growth while protecting its domestic markets. China's failure to meet fundamental international norms—such as national treatment, transparency, or the right to import or export freely—holds back the U.S. side of the bilateral trade equation and hurts U.S. businesses and workers.

During the past several years, as a result of our bilateral initiatives, China has liberalized its markets for many U.S. products. While U.S. access to China's market is far greater now than it was, U.S. access falls far short of what it should be. As we continue to press China on market access issues, we also intend to work with the Chinese Government in support of its economic reform program.

As I noted, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade—that is, ensuring that China's trade and economic policies are consistent with international trade practices and norms, such as those of the World Trade Organization (WTO). Bilaterally our market access, intellectual property rights and textiles agreements have all been throughly grounded in the GATT and now the WTO. Clearly, the ongoing negotiations over China's accession to the WTO are part of our overall approach of creating an effective framework for our trade relationship.

In this respect, trade cannot be separated from the broader considerations of creating a more open, rules-based society in China. Reforms of China's legal system, institution of new laws and regulations, and notions of due process and transparency all build a better trade relationship and, in part, will spring from that relationship. In the WTO accession negotiations, as in the case of our negotiations on IPR enforcement and other bilateral agreements, we will work together with China's negotiators to create a regime that strengthens the legal system and the rule of law in general.

The United States has pursued an aggressive, but balanced, trade policy toward China. To achieve our goals, we have put together a strong, complementary policy that combines bilateral, regional (APEC) and multilateral initiatives. Rather than severing the economic relationship through revocation of MFN, the Administration has sought, and has achieved, tangible results on market access, intellectual property rights (IPRs) and textiles. We have carefully used targeted trade sanctions as an effective tool to achieve U.S. trade objectives when other reasonable means have been exhausted.

BILATERAL INITIATIVES

IPR Enforcement

In 1995, the United States reached an historic agreement with China on the enforcement of IPRs, particularly copyrights and trademarks, and improved market access for U.S. firms in the computer software, motion picture, publishing and sound recording industries. In the 1995 Agreement, China committed to put a basic structure in place for enforcement of IPRs at the central and provincial level and in the major cities. China also undertook improved Customs enforcement of IPRs at the border and to strengthen the protection for well-known trademarks. We reached this agreement after threatening to impose nearly $2 billion in trade sanctions on China's exports.

Over the next year, we carefully monitored China's implementation of the 1995 Agreement. China created enforcement task forces and embarked on some enforcement efforts. However, overall piracy rates remained extremely high and U.S. companies were frustrated in their efforts to achieve market access. That is why, in May 1996, the Clinton Administration threatened to take action against China for failure to implement satisfactorily China's commitments from the 1995 Agreement.

In June 1996, after substantial verification activities on the part of the U.S. government and U.S. industry, we determined that a critical mass of enforcement actions in connection with the 1995 Agreement had been taken by the Chinese, and sanctions were averted. Among the steps confirmed at that time was the closure of 15 factories engaged in piracy, stepped up police activity, arrests and the imposition

of fines for piracy, as well as issuance of regulations to crack down on underground factories and the import of CD presses.

Since June, we have seen continued progress. IPR enforcement is now part of China's nationwide anti-crime campaign. Police are now involved in investigating IPR piracy on a regular basis. A nationwide campaign against pornographic and illegal publications has targeted copyright infringements. Pirates are being arrested and the courts are imposing fines and jail terms on people running "underground,," i.e., unlicensed, CD factories.

In late 1996, Guangdong Province (a region near Hong Kong that has been a center of pirating activity) launched a major crackdown on underground CD factories. The campaign began with an announcement of a reward of 300,000 RMB (US $37,000) for information leading to the closure of underground plants. According to State Council officials, so far Guangdong has paid out more than 1.2 million RMB. The reward system has met with such a success that it has been extended to include six southern and coastal provinces.

Overall, 39 production facilities not approved by the central government have had their licenses confiscated or have been closed since June. According to U.S. industry sources, the 22 legitimate factories, i.e., those that have been throughly investigated and registered by central government authorities, have turned their attention to domestic production while piracy of foreign sound recordings has dropped dramatically. In all, more than 10 million pirated CDs have been destroyed by Chinese government authorities.

Although we have seen significant improvements in enforcement, serious problems remain. Piracy of computer software continues at high levels. While market access for copyrighted products has improved, particularly with respect to sound recordings, we need to see further substantial improvement so that legitimate products are available to meet market demand. The problem of pirate CD factories also affects Hong Kong. Hong Kong is often used as a point for export of pirated product and importation of CD production line equipment. We have been working with the authorities there to address these problems and expect further progress.

Textiles

In 1994 and in February of this year, the Administration concluded bilateral agreements to achieve fair trade in textile products. The February agreement builds on and improves the 1994 Textiles Agreement with China. 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 market access for U.S. textile and apparel exports. Following on cutbacks in China's textile shipments achieved under the 1994 Agreement, the 1997 Agreement further reduced the overall quota to address enforcement issues.

China has agreed to bind its tariffs at its applied rates, thereby assuring security and certainty for U.S. exporters. In addition, China will lower tariff rates over the 4-year term of the Agreement. For certain high priority products, China has agreed to accelerate tariff reductions so that they are completed within two years.

The issue of illegal transshipments of textiles from China has been a significant concern in the past and the Administration has demonstrated its resolve 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. In the February 1997 agreement, we reduced China's quotas in fourteen apparel and fabric product categories where there had been agreement on violations through transshipment or over shipment. The Agreement also includes procedural measures to improve the bilateral consultation process, including arrangements to implement an "electronic visa" information system to more effectively track textile and apparel shipments. Moreover, a special textiles import safeguard mechanism will remain in effect until four years *after* the WTO Agreement on Textiles and Clothing has terminated.

Market Access Agreement

Obtaining effective implementation of the October 1992 market access agreement is another example of the Administration's continuing pursuit of market opening. In that Agreement, China committed to make sweeping changes in its import regime: China committed to eliminate import substitution policies, publish its trade laws in an official journal, apply the same testing and standards requirements to domestic products and imports, decrease tariffs on certain products, apply sanitary and phytosanitary measures only on the basis of sound science and eliminate licensing and quota requirements on more than 1,200 products over a 5-year period.

China has taken some significant steps in implementing the 1992 Agreement. China's trade regime is more transparent than previously; China has lowered tariffs on many products and has eliminated well over a thousand non-tariff barriers. While China has removed a substantial number of these barriers, we are concerned with China's tendency to give with one hand and take with the other. In some instances, for example in the medical equipment sector, China has replaced a quota with a tendering and registration requirement, thus impeding market access.

A number of other market access problems remain, in particular for U.S. agricultural products. In the 1992 Agreement, China committed to eliminate unscientific sanitary and phyto-sanitary restrictions used as barriers to market access. China's implementation of this commitment remains incomplete. Over the last four years, we have reached agreement on measures that permit the importation of live horses; apples from the states of Washington, Oregon, and Idaho; cattle, swine, bovine embryos, and cherries. Just last month, our negotiators completed a bilateral protocol and work plan that will permit exports of U.S. grapes to China. This new market for U.S. grape producers could reach more than $45 million in the next two to three years. China remains a major purchaser of U.S. wheat, corn, cotton, course grains and other bulk products.

Restrictions affecting such U.S. exports as pacific-northwest wheat, stone fruit, citrus, poultry and pork products are not based on sound science and remain in place. This is a particular source of concern. We are engaged in an active work program to resolve these sanitary and phytosanitary restrictions on our exports. I have created the new position of Senior Advisor and Negotiator for Agriculture at USTR, with responsibility for leading our bilateral efforts to improve market access for this important sector of the U.S. economy.

WTO Accession

The process of negotiating the terms of China's accession to the WTO Agreement is a major focus of our efforts. It is a means not only to expand market access for U.S. exports, tut also to bring China into the international rules-based trading system.

President Clinton has repeatedly affirmed U.S. support for China's accession to the WTO, but only on the basis of commercially meaningful commitments that provide greatly expanded market access and ensure compliance with WTO obligations. At this juncture, while China has evidenced a new seriousness about the negotiations, it has yet to put forward acceptable offers on market access for industrial goods, services and agricultural products. In addition, significant reforms will be needed to bring China's practices into conformity with WTO rules. The timing of China's accession is in China's hands. We are prepared to move as quickly as China, based on serious offers that provide genuine market opening and a means to achieve the balance that is lacking in our trade relationship.

Successful WTO accession would also achieve important broader objectives. Upon accession, China would be required to conform its current trade laws and practices to internationally-agreed rules and base any future laws on the same international norms that apply to the United States and other WTO members. Basic WTO principles, such as publication of all laws and regulations, the right to appeal administrative decisions, application of all of its trade laws uniformly throughout the country, and equal treatment for domestic and imported goods, all fosters the rule of law. Moreover, China's implementation of these basic principles would be subject to dispute settlement based on the same rules that apply to all WTO Members. The United States has used the WTO dispute settlement system successfully against major trading partners, such as Europe, Japan and Canada, as well as against countries such as Korea and Pakistan.

WTO accession would also accelerate economic reforms, moving China toward a more market-oriented economy. WTO accession would require elimination of measures that protect state monopolies, take government out of commercial transactions through limiting the use of price controls and eliminate trade distorting subsidies, quotas and export performance requirements. In short, China would be required to open its market to a broad range of goods and services in areas in which U.S. companies are internationally competitive. We are now engaged in comprehensive negotiations to accomplish this objective. A commercially meaningful accession package would result in tangible gains for U.S. companies and workers.

EFFECTS OF MFN REVOCATION

Revocation of MFN tariff treatment jeopardizes our current and future bilateral and multilateral trade initiatives. MFN revocation would cut U.S. exports to China, increase prices for U.S. consumers and cost jobs in this country. An added factor this year, is the destabilizing affect that MFN revocation would have on Hong Kong.

We estimate that revocation of MFN would increase tariffs on imports from China to a trade-weighted average of about 44 percent, from their current level of about 6 percent. Even accounting for changes in trade flows, revocation would result in U.S. consumers paying approximately $590 million more each year for goods such as shoes, clothing, and small appliances. For manufacturers, the cost of goods made with Chinese components would increase, reducing the competitiveness of their finished goods in domestic and international markets.

If MFN tariff treatment is revoked, China is likely to retaliate against U.S. exports by increasing tariffs on these products and other measures. China has threatened such actions in the past in response to our use of trade sanctions.

U.S. exports to China have nearly quadrupled over the past decade. Those exports support more than 170,000 jobs in the United States. Jobs based on goods exports, on average, pay 13 to 16 percent more than non-export related jobs. Revoking MFN would jeopardize U.S. exports and U.S. jobs, thus transferring those export opportunities and those jobs to Japan, Europe and other competitors.

Revocation of MFN would also derail current bilateral and multilateral negotiations. Instead of engagement, China may, for example, cease bilateral negotiations on sanitary and phytosanitary restrictions on agricultural products and would likely decrease efforts to enforce our bilateral IPR agreements. Moreover, negotiation on WTO accession would stop, creating uncertainty over how China's markets will evolve. In short, we would lose the opportunity to shape the evolution of China's trading system in a manner compatible with international norms and U.S. expectations.

The situation in Hong Kong this year provides another compelling reason for continuing normal trade relations with China. MFN revocation would deal Hong Kong a devastating economic blow and would have a destabilizing effect. Trade is a particularly important part of the economic life of Hong Kong. More than 50 percent of U.S.-China trade is handled through Hong Kong, thus making it highly dependent on continued normal trade relations between China and the United States.

Hong Kong authorities estimate that MFN revocation would slash its trade volume by $20 to $30 billion, resulting in the loss of between 60,000 and 85,000 jobs. Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong leaders, including Democratic Party leader Martin Lee, British Governor Patten, and Anson Chan have spoken out strongly in favor of renewal of MFN. The implication is clear: bilateral trade between the U.S. and China, encouraged by MFN tariff treatment, provides needed stability at a time of dramatic change.

Revoking MFN would not only damage our important and evolving commercial relationship; it would also deny us the benefits of our strategic dialogue. And because China's politics are in flux, especially during the run-up to this fall's Party Congress, the withdrawal of MFN would almost surely strengthen the hand of those in China who have been seeking to fill the country's ideological void with a belligerent nationalism.

Mr. Chairman, as I mentioned earlier, providing MFN tariff treatment is the norm in U.S. trade, not the exception. In every year since 1980, every U.S. President has supported extension of MFN tariff treatment to China. Granting MFN treatment means that China will receive the same tariff treatment as nearly every other U.S. trading partner.

The United States has a long history of providing the same basic level of tariff treatment to other countries and maintaining normal trade relations with the global community. Because MFN is a powerful symbol of America's global commitment to open markets, Congress has enacted into our law a presumption that normal trade relations will exist between us and other countries. Maintaining such relations is vital to a broad array of U.S. interests; maintaining normal trade relations with China is no less vital.

CONCLUSION

Congress is again faced with a decision whether to pursue a positive agenda for trade and our overall relations with China or to sever our economic relations with that country and isolate ourselves from it. While achieving our objectives through

positive engagement and the use of targeted measures is a slow and difficult process, it yields results. MFN treatment should be renewed.

Chairman CRANE. Now I welcome Mr. Eizenstat before the Subcommittee in his new position as Under Secretary of State for Economic, Business and Agricultural Affairs at the Department of State, and I hope you and Bill Daley parted on good terms.

Mr. EIZENSTAT. The best.

Chairman CRANE. The reason I say that is Bill Daley, Charlene, and I have something in common: We all grew up in Chicago.

Mr. EIZENSTAT. I have something in common with you as well: I was born in Chicago.

Chairman CRANE. Oh, very good. OK. Proceed.

STATEMENT OF HON. STUART EIZENSTAT, UNDER SECRETARY FOR ECONOMIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. EIZENSTAT. Mr. Chairman, Members of the Subcommittee, I welcome the opportunity to testify along with Ambassador Barshefsky on the renewal of normal trading status for China. As Secretary Albright has said, there is no greater opportunity or challenge in American foreign policy than to encourage China's integration into the international system as a fully responsible member.

The world's most populous nation—with more than one out of every five people on the face of the Earth—is still not a full member of this system. The People's Republic of China, PRC, is of course already a key regional power in Asia, and its high rate of economic growth means we must assume it will become still more important. But with power must come responsibility—responsibility for acting according to international norms in human rights, proliferation, trade and commerce, and in the resolution of political disputes. And on human rights specifically, the PRC's leadership well knows that we feel very strongly that our bilateral relationship cannot reach full fruition without progress in this area. Bringing China more fully into the international economic system, including its rules, standards, and institutions, benefits us as a nation and average Americans as workers, consumers, and citizens.

The manner in which we engage China will have an important bearing on whether it becomes integrated into international norms and institutions, or whether it instead becomes an isolated, unpredictable, and disruptive force in the world. Few developments will have a greater effect, for better or worse, on the kind of world we live in during the next century. We must avoid taking actions that will have the effect of isolating China. For all the very real problems we have with her and the firmness we must display, China is not our enemy, and we must not act as if she is.

The question that concerns us today—whether to revoke China's MFN status—will have a crucial effect on how we conduct our entire foreign policy toward China. Is there any reason to believe that China's conduct on the issues that concern all of us will improve if we deny her at this time the normal trade benefits virtually every country on the Earth receives? To ask the question is to answer it: Such a negative policy assumes that we are fated to con-

front China in the future and that American diplomacy and other tools are helpless to prevent this.

We do not have the luxury to take such a stance. We cannot walk away from engaging China. America's interests would be seriously damaged if we were to do so.

This administration is committed to a strategy of comprehensive engagement in order to achieve our goal of incorporating China into the international system. America's foreign policy has consistently focused on this goal for 25 years, a period embracing the terms of six Presidents of both parties. Our policy is designed to pursue cooperation where possible while clearly and directly opposing those Chinese actions with which we disagree, and it is beginning to work. The PRC cooperates with us on an important range of issues, from alien smuggling and drugs to Cambodia and our cooperative efforts to enhance security on the Korean peninsula.

Pluralism is increasing in China, and our close economic engagement with Chinese society is a major engine driving this process. Every year, thousands of Chinese visit our country on business and while here they receive a firsthand dose of the American way of life: our politics, our economy, and our American freedoms. Thousands more Chinese, employees of American firms who do not visit, are nevertheless supervised by American managers, and correspond via e-mail on a daily basis with their American counterparts.

In 1990, Mr. Chairman and Members of the Subcommittee, a little over 600,000 Chinese workers were employed by foreign invested firms. In 1995, that number leapt to over 5 million, and is undoubtedly higher today. We would do ourselves and the people of China a great disservice by unilaterally reducing this influence.

Where we have differences we have worked to change Chinese policies, ranging from human rights to proliferation of weapons of mass destruction, using the full range of tools at our disposal: public and private diplomacy; bilateral and multilateral discussions; and, yes, targeted sanctions where appropriate. In this regard, we continue to maintain sanctions that were put in place after the suppression of the prodemocracy demonstrations in Tiananmen Square in 1989. During the March 1996 tension in the Taiwan Strait, we dispatched two aircraft carrier battle groups to avoid any miscalculation. Ambassador Barshefsky's own sterling leadership and our willingness to impose sanctions resulted in favorable conclusions to discussions on textile shipments and intellectual property.

Unlike these carefully targeted sanctions, revocation of MFN is a blunt instrument, far too blunt to achieve our goals. Far from advancing our interests, the consequences of revocation would adversely affect our capacity, across the board, to influence Chinese behavior.

Indeed, MFN is central to our strategy of engagement. Access to the American market is one of the most tangible evidences of the benefits of joining the international system. MFN does not, of course, in any way suggest that we are bestowing favors on China. It is simply, as the Ambassador has suggested, ordinary tariff treatment that we extend to virtually every other country in the world.

Renewal must be based on a clear-eyed calculation of American interests: what is best for American workers, American business, American consumers, and American foreign policy in Asia and around the world. And on all of these counts, it is in our interest to have a normal trading relationship with China. Termination of normal trade status would damage our foreign policy with China across the board and be counterproductive in the areas of trade, in ways that the Ambassador has already suggested.

In 2 weeks, Secretary Albright, together with many of you, will travel to Hong Kong for the historic occasion of the reversion of that colony to Chinese sovereignty. Her visit will emphasize our strong support for the maintenance of the rule of law in Hong Kong and its protection of civil liberties and basic freedoms for its people. Far from supporting Hong Kong, the revocation of China's MFN status would undermine the basis of the island's prosperity.

Hong Kong's economic strength is one of its chief assets in ensuring autonomy from Beijing. And as Ambassador Barshefsky has pointed out, every significant leader—Governor Patten, Martin Lee, Anson Chan—have all urged renewal. Failing to renew MFN for China would hurt Hong Kong just when it needs our support most. Our other friends in Asia would also suffer, notably Taiwan, which has a significant stake in trade and investment relations with the PRC.

In conclusion, let me be very clear about this vote. It is most assuredly not a vote endorsing China's policies. Every one of us opposes many of the practices and policies of the PRC. It is, rather, about America's own national and foreign policy interests. It is about the kind of international environment we are conducting for the 21st century. It is about advancing our concerns for human rights. It is about working together to protect the environment we all share. It is about good jobs for American workers, lower prices for consumers, and a huge market for American business. It is, Mr. Chairman and Members of the Subcommittee, about continuing to conduct a firm, forceful, patient, and diligent diplomacy that advances our National interests, rather than throwing up our hands and turning away, heedless of the consequences.

Thank you very much.

[The prepared statement follows:]

Statement of Stuart Eizenstat

Under Secretary for Economic Affairs
United States Department of State

Before the House Ways and Means Committee
Subcommittee on Trade

June 17, 1997

CONTINUATION OF NORMAL TRADE STATUS FOR CHINA

INTRODUCTION

Mr. Chairman, I welcome this opportunity to testify before you on the renewal of normal trading status for China. As Secretary Albright has said, "there is no greater opportunity -- or challenge -- in American foreign policy today than to encourage China's integration into the international system as a fully responsible member." The world's most populous nation --more than one out of every five people on the face of the earth -- is still not a full member of this system. China's emergence as a global power is a development of immense, historic significance, both to the United States and the world. The People's Republic of China is, of course, already a key regional power in Asia, and its high rate of economic growth means we must assume it will become still more important. But with power must come responsibility -- responsibility for acting according to international norms in human rights, proliferation, trade and commerce, and the resolution of political disputes. Bringing China more fully into the international economic system, including its rules, standards, and institutions, benefits us as a nation and average Americans as workers, consumers, and citizens.

China shares borders with more countries -- fourteen -- than any other in the world, and has unresolved border issues with four. It has a territorial dispute with Japan in the East China Sea and with several countries in the South China Sea. From the Korean Peninsula to the Spratly Islands, China is a key factor in the stability of the Asia-Pacific region.

In short, China is already a country of critical significance to the United States and to our allies and key trading partners, and is likely to become still more important in the years ahead. Its role could be helpful or harmful, and it is the task of American diplomacy to help ensure that it is the former. The manner in which we engage China will have an important bearing on whether it becomes integrated into international norms and institutions or whether it becomes an isolated, unpredictable, and disruptive force in the world. Few developments will have a greater effect for better or worse on what kind of world we live in during the next century. We must avoid taking actions that will have the effect of isolating China. China, for all of the very real problems we have with her actions, is not our enemy, and we must not act as if she is.

The question that concerns us today, whether to revoke China's MFN status, will have a crucial effect on how we conduct our policy toward China. Is there any reason to believe that China's conduct on the issues that concern us will improve if we deny it the normal trade benefits virtually every country on earth receives? Is there any reason to believe that we can deal effectively with the issues that concern us by severing our trade

relations with China? To ask the question is to answer it. Such a policy assumes we are fated to confront China in the future, and that American diplomacy is helpless to prevent this result.

We do not have the luxury to take such a stance. We cannot walk away from engaging China. American interests would be seriously damaged if we were to do so.

MFN is Central to Our Strategy of Comprehensive Engagement

This Administration is committed to a strategy of comprehensive engagement with the PRC in order to achieve our goal of incorporating China into the international system. American foreign policy has consistently focused on this goal for 25 years, a period embracing the terms of six Presidents of both parties. Our policy is designed to pursue cooperation where appropriate while clearly and directly opposing those Chinese actions with which we disagree. We work with the PRC on a number of issues, ranging from alien smuggling and drugs to Cambodia and our cooperative efforts to enhance security on the Korean Peninsula. Where we have differences, we have worked to change Chinese policies, ranging from human rights to proliferation of weapons of mass destruction, using the full range of tools at our disposal -- public and private diplomacy, bilateral and multilateral discussions, and targeted sanctions when appropriate. In this regard, we continue to maintain sanctions that were put in place after the suppression of the pro-democracy demonstrations in Tiananmen Square in 1989; during the March 1996 tension in the Taiwan Strait, we despatched two aircraft carrier battle groups to avoid a

miscalculation; and our willingness to impose sanctions resulted in favorable conclusions to discussions on textiles shipments and intellectual property. Revocation of MFN is far too blunt of an instrument to advance these policies. Its consequences would adversely effect many of our policies. We have a very strong interest in the maintenance of a high degree of autonomy in Hong Kong and the preservation of Hong Kong's basic freedoms, and we carry on an active dialogue with Beijing on this issue.

MFN is central to this strategy. Access to the American market is the most tangible evidence there is of the benefits of joining the international system. MFN - most favored nation treatment -- does not, of course, in any way suggest that we are bestowing favors on China. It is simply ordinary tariff treatment, the same as we have with virtually every country in the world. Renewal of MFN must be based on a clear-eyed calculation of American interests. What is best for American workers, American business, American consumers, and American foreign policy interests in Asia? On all of these counts, it is in our interest to have a normal trading relationship with China.

By contrast, revocation of MFN would reverse a quarter century of bipartisan China policy. It would also isolate us from our friends and allies, every one of which would continue normal trade with China. In the run-up to this fall's Party Congress in Beijing, revocation would discredit the forces of reform in Beijing and would strengthen those who seek to fill the country's ideological void with a belligerent nationalism. We are unlikely to influence internal developments in any country, especially one as large as China, if we are not engaged with it. And MFN is essential to any policy of engagement.

Moreover, as I said before, there are only a tiny handful of countries with which we do not have trade or MFN. To include China with these mostly pariah states would encourage precisely the opposite of the conduct that we wish to see. Far from helping to integrate China into the international system, such an action would send Beijing a message that there is no place for it in the community of nations. And that message could result in a new and damaging pattern of conduct on China's part to the detriment of the U.S. and the international system.

Revocation of MFN Would Harm Our Economic and Trade Interests

Termination of normal trade status would damage our foreign policy with China across the board, and would be directly counterproductive in the area of trade. Large numbers of our workers and businesses scattered all around the country benefit from normal trade with China. Today we have annual exports to China of $12 billion, directly responsible for some 170,000 American jobs. These exports, and these jobs, would be at risk from China's certain retaliation to the revocation of MFN.

We already have an impressive record of achievement on trade issues with China, and momentum is building for still more successes. In June of last year, we reached an accord on protection of intellectual property that has already advanced our efforts to protect American products in some of our strongest export industries. Since that agreement, China has closed 39 illegal CD factories and established hot-lines in southern

China offering rewards that are worth more than 20 times the average local annual salary in exchange for tips leading to factory closings. In February, we concluded a textile agreement that provides expanded access to the Chinese market for American textile producers. During Vice President Gore's trip to China in March, Boeing and General Motors signed major contracts that demonstrate both the current importance of the Chinese market and its vast potential.

China has reinvigorated its negotiations on accession to the World Trade Organization in certain important areas and we are making progress toward a commercially meaningful accession package, although there remains a very long road for China to travel. We have made clear that a viable accession package will require China to cut tariffs, provide access to U.S. services, allow U.S. companies to import and export goods to and from China, and remove quotas and unfair licensing rules. To meet WTO requirements, China also will have to make laws public, require judicial review of all trade activities, apply all trade laws more uniformly, and submit to WTO dispute settlement to ensure compliance with WTO rules. China's accession to the WTO under these terms would open significant new export opportunities for American firms. It would also represent another milestone in our strategy of integrating the PRC into the world community. Revocation of MFN would halt progress in all these areas, and would almost certainly undo the gains we have so painstakingly achieved.

Despite the significant progress we have made, we still face a large trade deficit with China. The reasons for this deficit are many, including the use of China by other Asian countries as a processing location for their own exports. Revoking MFN is not the way to address them.

I have personally raised, both privately and publicly during my trip to China last March, our profound concerns with the trade deficit -- last year $39.5 billion. I stressed that it was not sustainable. I believe China better appreciates this. It has quadrupled since 1990 and is the second largest in the world. I presented a list of major projects for which U.S. companies were highly competitive and advocated on their behalf. But the most important way to reduce their unacceptably high deficit is through a sound, commercially viable WTO package that will open China's markets to our products. The way to reduce the trade deficit with China is not by limiting China's exports to America, thereby harming our own workers and manufacturers who depend on Chinese inputs for their own products. Rather, it is to remove the barriers confronting American exports to China. We are pursuing this goal with all the tools available, including WTO accession negotiations and our bilateral trade negotiations.

The World Bank estimates that China will invest $750 billion in infrastructure in the next decade. Without a normal trading relationship, American firms would be frozen out of this market, to the delight of our competitors. By increasing the prices of imports, it would also add over $500 million to the shopping bill of the American consumer.

Since many Chinese exports are "low end," low technology goods, lower-income Americans will feel a disproportionate share of that increased bill.

Revocation of MFN Would Hurt Hong Kong At A Critical Time

In two weeks, Secretary Albright, together with many members of Congress, will travel to Hong Kong for the historic occasion of the reversion of that colony to Chinese sovereignty. Her visit will emphasize our strong support for the maintenance of the rule of law in Hong Kong and the protection of civil liberties and basic freedoms for the people of Hong Kong. Far from supporting Hong Kong, revocation of China's MFN status would undermine the basis of the island's prosperity.

Hong Kong handles over 50% of U.S.-China trade, making it highly dependent on the continuation of that trade. The Hong Kong Government estimates that revocation would slash trade by $20-30 billion, eliminate 60,000-85,000 jobs, cut its economic growth rate by over 50%, and reduce incomes by $4 billion.

Hong Kong's economic strength is one of its chief assets in ensuring its autonomy from Beijing. As Martin Lee recently said, "If the United States is concerned about the handover, then the best thing is to assure the community by making sure nothing dramatic happens to Hong Kong. The (Hong Kong) Democratic Party has always strongly supported renewal of MFN for China unconditionally. We have never changed from that position." Just last week, Governor Patten wrote to the President that "To those of our

friends who say that the best way to help Hong Kong is to attach conditions to China's MFN status, or to withdraw it altogether we say: 'Thanks, but no thanks. If you really want to help Hong Kong, the best thing you can do is to renew MFN without conditions.'" In short, failing to renew MFN for China now would hurt Hong Kong just when it most needs our support. Our other friends in Asia would also suffer, notably Taiwan, which has a significant stake in trade and investment relations with the PRC.

MFN Advances Our Human Rights Agenda

I have already discussed the economic harm we would inflict upon ourselves by failing to renew MFN. But ending normal trade relations would also harm U.S. interests in many other ways, including policies about which we as Americans feel most passionately. Historically, China's treatment of its own people has always been at its worst when it is most isolated. Among the darkest hours under the Communist regime, the years of the Cultural Revolution from 1966 to 1976, was also when the PRC was most withdrawn from the world.

Today, by contrast, pluralism is increasing in China and our close economic engagement with Chinese society is a major engine driving this process. Every year, thousands of Chinese visit this country on business. While here, they receive first-hand a dose of the American way of life: our politics, our economy, and our personal freedoms. Thousands more Chinese employees of American firms who do not visit here are supervised by American managers, and correspond via e-mail on a daily basis with their

American counterparts. We would do ourselves and the people of China a disservice by unilaterally reducing this influence.

The lack of progress on toleration of political dissent cannot be denied. This Administration has been firm and vocal in opposing PRC human rights abuses, and we will continue to do so. We also recognize, however, the progress China has made in the past 15 years. The average Chinese today enjoys greater freedom of choice in terms of employment, education, housing, travel at home and abroad, and greater access to information than ever before in China's 4,000 year history. Beijing has also begun to pass new criminal and civil laws designed to protect citizens' rights and bring the PRC closer to international norms. Finally, in a development that may one day spread further, the PRC is conducting village elections in rural areas, and perhaps half of China's rural population has participated in these elections. Ambassador James Sasser recently observed one of these elections. As elected officials yourselves, you know better than anyone the significance of this development, which will put into the minds of Chinese the notion that the government should be responsible to the people for how it conducts its affairs.

Clearly, however, PRC human rights practices still do not meet international norms and our bilateral relationship cannot come to full fruition without progress on this issue. It continues to imprison dissidents for the peaceful expression of their views. We are concerned about the maintenance of Tibet's unique cultural, religious, and linguistic heritage, and we continue to urge Beijing to reopen discussions with the Dalai Lama. We

urge China to provide access to its prisons to international humanitarian organizations. We have urged it to sign and ratify the UN Covenants on Civil and Political Rights and on Economic, Social, and Cultural Rights. We are pleased by Beijing's announcement that it will sign the latter covenant and is giving serious consideration to the former. We also stress to the PRC the importance of the freedom to practice religion: in particular, we are disturbed by restrictions on religious freedom, harassment of religious groups, including Protestant and Catholic groups, and reports of the destruction of house churches. We note that nonetheless membership in registered and unregistered churches continues to grow. We speak frankly and candidly about these matters in our high-level meetings with the Chinese, and as Secretary Albright insists, we will continue to "tell it like it is." There is no reason to believe, however, that revocation of MFN would cause the PRC to change any of these policies. On the contrary, by lessening outside influence in Chinese society, it would remove an important influence for further reform. MFN helps, not hurts, our pursuit of human rights objectives.

The China Service Coordinating Office, an organization serving more than one hundred Christian organizations in service and witness in China, agrees. It fears revocation of MFN would: (1) close doors for service in China through educational, cultural, and other exchanges; (2) undermine Hong Kong and Taiwan, thereby hurting Christian outreach to the mainland from those islands; and, (3) hurt most exactly those areas where social and political developments are most promising. The China Service Coordinating Office recognizes that engagement keeps the door open to continued progress on religious freedom in China and on human rights more generally.

Engagement Strategy Has Produced Results in Other Areas

Our strategy of engagement has produced impressive results in other areas as well, and by disrupting this policy, revocation of MFN would halt prospects of further progress and threaten our achievements. We are working with China to begin the Four Party Talks to end the state of war on the Korean Peninsula. China will play a critical role in determining the success of these historic talks.

In the area of nonproliferation, China in 1994 agreed to abide by the guidelines and parameters of the Missile Technology Control Regime. It signed and ratified the Nuclear Nonproliferation Treaty and the Chemical Weapons Convention. In May of last year China issued an important statement that it would not provide assistance to unsafeguarded nuclear facilities. We have had useful talks with Beijing on issues involving the export of nuclear technology, and expect further progress as we work toward meeting conditions necessary to implement our 1985 agreement on uses of peaceful nuclear energy.

There are other nonproliferation matters where we have been disappointed with the progress we have made, and we are continuing to work on those areas. We have expressed our strong concerns about China's inadequate controls on the export of materials and technology that can be used in missile development and chemical and biological warfare; about shipments to Iran by Chinese companies of dual-use chemicals

and equipment that can be used in a weapons program, and about its arms sales to Iran and Pakistan. Last month, we imposed sanctions on Chinese individuals and companies that were providing assistance to Iran's chemical weapons program. We will continue to take appropriate action in the future against such violations of our laws.

Our strategy has also achieved a reduction of tensions in the Taiwan Strait. In March of 1996, the President despatched two carrier battle groups to the area in response to the PRC missile exercise in the Strait. At the same time, we reaffirmed our commitment to the three communiqués and our support for the peaceful unification of Taiwan with the mainland. Our actions reassured Asia and the world of our commitment to the peaceful resolution of the Taiwan issue. Tensions in the Strait have subsided since our action, and, for the first time, some direct commercial shipping has recently opened between Taiwan and the mainland.

In the environmental field, our two governments have increased cooperation by establishing the U.S.-China Environment and Development Forum. Vice President Gore inaugurated the Forum during his recent visit to China. The Forum has set an ambitious agenda for collaboration in four areas: energy policy, environmental policy, science for sustainable development, and commercial cooperation. The combined efforts of our two Environmental Protection Agencies have already resulted in China's recent decision to eliminate the use of leaded gasoline and in the undertaking of joint studies on the health effects of air pollution.

In conclusion, Mr. Chairman, let me be very clear about this vote. The vote on renewal of MFN is most assuredly not a vote endorsing China's policies. Everyone of us opposes many of the practices and policies of the PRC. This vote is about American national interests. It is about the kind of international environment that the United States is constructing for the 21st Century. It is about advancing our concerns on human rights. It is about working together with China to protect the environment that we all share. It is about good jobs for American workers, lower prices for American consumers, and a huge market for American businesses. It is about, Mr. Chairman, continuing to conduct a firm, forceful, patient and diligent diplomacy that advances our national interests, rather than throwing up our hands and turning away, heedless of the consequences.

Chairman CRANE. Thank you.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I would like to thank Ambassador Barshefsky and Secretary Eizenstat for being here today. I would like to ask Ambassador Barshefsky one question and, of course, Secretary Eizenstat as well.

Ambassador, the trade deficit issue has been coming up and I would imagine the opponents of MFN will use that issue probably most prominently over the next week or so. Could you talk about the trade deficit and its impact, and what this really, in fact, means?

Ms. BARSHEFSKY. I think the trade deficit is a matter of concern to the extent that a portion of it is a product of what we have described previously as significant overlapping barriers to trade which, despite China's economic opening, still characterizes large portions of the Chinese economy.

The concern that we have is not the level of China's exports to the United States, 70 percent of which tend to be concentrated in very low-end consumer goods. We think that is a net benefit to the United States. The concern we have is with respect to our export performance to China, and the concern manifests itself in a couple of ways. After very, very strong export growth, particularly from 1992 to 1995, we saw export growth that was dampened very significantly. Our exports to China grew only 1.9 percent in 1996, in the face of European and Japanese exports which grew by double

digits. Part of the reason is that our exports are concentrated in part in agricultural goods and China had a bumper crop, but we are in the process of looking into the range of causes for that rather diminished export performance.

As we look now, in 1997 we see a further dampening of our exports to China. We also, though, see a similar pattern with respect to Japan's exports to China and the European Union, we believe, in favor of China importing from other countries in Asia and, to some extent, Latin America. For whatever cause, obviously our export performance to China is critical. We must have access to that market on fair and open terms. We must expect, over time, to achieve a much more reciprocal trade arrangement. The focus of our efforts will intensify. Part of that is China's WTO accession talks, where issues of access are obviously front burner. But the concern about the deficit is not the number per se, it is the question about our own export performance to China.

Mr. MATSUI. Thank you.

Secretary Eizenstat, you talked about the impact of losing MFN status in terms of China's U.S. relations. If we did not have MFN, if we cut off MFN, what would the reaction of the Chinese be, in your opinion, and how would that affect some of the other Asian countries?

Mr. EIZENSTAT. With respect to the trade aspects, Ambassador Barshefsky is obviously the most competent to——

Mr. MATSUI. I meant more the diplomatic aspects.

Mr. EIZENSTAT. There would be retaliation and we would have even more difficulty obtaining the kind of market access that Ambassador Barshefsky has been trying to obtain in the WTO talks and bilaterally as well.

But in terms of the foreign policy impacts, it would make it much harder to engage China on the whole range of issues that we are engaging in here: everything from proliferation to security issues in Asia like Cambodia, work on the U.N. Security Council where we do have a good working relationship. Our work on alien smuggling, our work on drug interdiction—all of these would be much more complicated because we would have demonstrated, in a very profound way, that we didn't want to engage with China.

You simply cannot isolate, Congressman Matsui, the trade issue and say we are not going to do any trade business with you, but we want you to cooperate with us in the foreign policy realm. All of our allies in Asia, without exception, want MFN extended because they know that the security and stability of Asia depends heavily on an understanding between the United States and China in that area. That understanding would be severely imperiled if MFN status were revoked.

Mr. MATSUI. I would like to thank both of you for your being here today and your testimony.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Ambassador, Mr. Secretary, good to have you here. You know I agree with the argument as far as foreign policy and the economics are concerned; that it is absolutely right on, that we have to continue our MFN status with China. However, let me ask you a question, sort of looking over the next hill. Because I think that this

is a progressive type of thing, that there are certain things that bother us and we are saying—because of what we were doing on an economic and on sort of a bilateral diplomatic relation basis—that they are going to be all right.

But let's look out 10 years. Let's assume that the deficit quadruples the way it has in the last 10 years, so now instead of $30, it is $120 billion. And let's assume that the pirating still exists and let's assume that some of what we hope for as far as nonproliferation and things like that haven't been solved. Are there things that we should be doing to signal to the Chinese that we are not going to rescind the MFN, but that there are things that we must do together as mature nations?

Ms. BARSHEFSKY. Let me take a crack at your question. I think Ambassador Eizenstat may want to add.

Your question points out the need to have a consensus policy in this country with respect to China. One of the pros of the annual MFN debate is that it exposes differences among us with respect to our concerns on China and the way in which we might handle them. One of the cons is that it induces a kind of paralysis in policymaking on a bipartisan basis and in a consensual manner.

In China, like other foreign countries, seeing that grinding away internally in the United States may not move us in the direction we want as quickly or as effectively as if we had articulated a unified policy with respect to China.

Your question to me points up the need to try and get beyond this annual debate and this annual hand wringing, to move toward the development of a long-term policy with respect to China.

It seems to me that the strategic vision is not particularly hard to articulate or hard to envision. And that is, we seek China's integration into the global community. We seek China's adherence to international norms, all bound by the rule of law. We seek to help China, if we can, define its own greatness in terms of constructive behavior rather than destructive or destabilizing behavior.

These things, it seems to me, this vision is one that we could all embrace. It is commonsensical and necessary: China as a full global partner, not in renegade status.

The question then is how to move toward the development, on a bipartisan basis, of a policy to help us help China move in that direction, to the maximum extent that we might be able to influence that movement.

Mr. EIZENSTAT. If I might just supplement that on the foreign policy side, it is very important I think for the Congress not to feel that by voting in favor of MFN either the administration or the Congress is somehow abandoning the ability to influence Chinese behavior in accordance with international norms. And if I may just give you some examples of ways, apart from MFN, that we are attempting—and successfully—to do so.

Radio Free Asia is a good example: We are trying to increase our Chinese language broadcasting there so that we pump in information to the Chinese people. The rule of law, which Ambassador Barshefsky mentioned: We have a special rule-of-law initiative that will establish in the commercial area the whole concept of an independent judiciary and also the sanctity of contracts, and ultimately we believe that will overflow into the political area. We are encour-

aging model business practices for our companies investing there. And as my last official act with Bill Daley, I gave an award to a company out of San Francisco that has done sterling work in encouraging human rights and a respect for labor practices in China.

We work in Geneva in the U.N. Human Rights Commission to introduce resolutions which condemn religious persecution and other human rights problems. Our Customs officials are working on prison labor issues, and we have a whole host of issues where we have actually invoked sanctions, for example, on Chinese entities for missile technology transfers to Pakistan. Only a few weeks ago sanctions were invoked on seven Chinese entities and individuals for their assistance in Iran's chemical weapons production. So we are not helpless in any way, shape, or form. We are actively involved in a whole range of areas. But MFN is the wrong manner—Congressman Levin put it very well—it is the wrong forum in which to engage on these issues. We have other, more targeted and effective mechanisms to influence Chinese behavior.

Mr. HOUGHTON. Thank you.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I appreciate, Ambassador, your good work on behalf of the MFN. You have been clear, you have been concise, you have been candid with us over the many months that we have worked together, and I think it is very useful to have you come to this Subcommittee and express your point of view. And I would like to reiterate that the most important point I have taken out of all of this, and the most important lesson that I think can be extended is that the vote on MFN is an indicator not that we support some of the egregious things that are going on in China, but rather that we have selected this way to best protect the United States own interests in China. And, Mr. Chairman, I think I will leave it at that and leave time for others to question.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you.

As always, good to see you—I enjoy working with you. I think it is an ideal combination to see our trade policy and our foreign policy working together. And, of course, Ambassador Eizenstat, I think you bring credit to public service by having served so well with the Carter administration, and by your willingness to forfeit financial goals to return to the government of your country at a time when so many people look at it in a negative way.

And I appreciate your remarks relating to the only way to influence people—in terms of their antihuman rights activity and changing their position and helping them understand democracy better—is to have communication and ties and trade. And for the life of me, I don't see why that philosophy doesn't apply to Cuba, as we find it so easy to apply to China.

But passing on with that, I personally think that China is so different because she is so big and has the potential to be so powerful. Sometimes the rhetoric which we use as to what she has to do before she gets into the WTO is exaggerated. Clearly, China must agree to a level playingfield and be prepared to drop subsidies and go into the free market. We discussed this at that enjoyable conference of the WTO in Singapore, after which, as you know, the

delegation went to China. In talking with their officials, they noted they have hundreds of millions of people that are in government-subsidized workplaces, and are so proud of the fact that they do not have welfare or a safety net because everybody works. I just don't know—I know the word "transition" is used a lot, Ambassador Barshefsky, but it seems that—can transition take 25 years or 50 years? They are not thinking about turning all of those people loose on the streets against them.

And with the problems they have with the military, it seems as though they are listening and they are anxious to get into WTO, but would it be safe just to feel comfortable that, as it relates to China, our rules are going to be much more flexible than with other countries in terms of their work force?

Ms. BARSHEFSKY. Let me first say that WTO admission is not designed to destabilize countries or to destabilize economies. The point of the WTO exercise is twofold. One is that acceding countries, of which there are 124 in the WTO, across the board must undertake market opening commitments. Second, those countries must adhere to a set of international rules with respect to trade fundamentals like nondiscrimination or national treatment, transparency in a trade regime, notions of judicial review, and so forth.

There is no question that many of these concepts are rather alien in China, in part because of the absence of a rule of law, in part because of an entirely different government and administrative structure from the typical market economy, and, of course, in part because different policies have been pursued.

Nonetheless, we do believe that over time China can be moved far closer to market economics than it is now, not because we seek a sameness with the United States—there will never be a sameness between China and the United States—but because we believe China also wants greater compatibility with the international system and, over time, greater compatibility with the United States.

Mr. RANGEL. What does transition mean? How much time will they be given to be on par with the rest of the democracies?

Ms. BARSHEFSKY. In some instances there will be no transitions allowed: notions of nondiscrimination and transparency.

Mr. RANGEL. I am talking about these factories with hundreds of millions of people working.

Ms. BARSHEFSKY. With respect to state-owned enterprises, which is really what you are talking about, those enterprises need not close, but they must operate under a set of rules that provides commercial behavior within those state enterprises.

Mr. RANGEL. Would those same rules apply to our welfare-to-work laws or our prison workfare?

Ms. BARSHEFSKY. No, we are talking about commercial enterprises largely. In the WTO we are not really talking about the social safety net or things of that sort. We are talking about enterprises in China which are import monopolies and export monopolies, essentially. Those enterprises will, over time—and I cannot tell you how long; that is obviously a matter for discussion with China—they will, over time, have to move toward commercial practices with respect to their importations and with respect to their exports.

Mr. RANGEL. Thank you.

Chairman CRANE. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Thank you, Madam Ambassador and Mr. Secretary. Madam Ambassador, China administers many unreasonable quarantine measures which restrict access for U.S. agricultural products such as wheat, cattle, and several kinds of fruit.

Is China moving to eliminate these nontariff barriers, and is China willing to adopt sanitary and phytosanitary measures consistent with the Uruguay round agreement?

Ms. BARSHEFSKY. You have put your finger on a very difficult problem that we have had with China for some time. We have had some successes.

China has moved to ease restrictions on poultry. We have just gotten an agreement with China for the admission of grapes for the first time. We have made progress on apples, cherries, and some animal products, although notably not pork. But there are a number of instances in which China uses unscientific sanitary and phytosanitary barriers to keep our agricultural products out: Pacific Northwest wheat is one example, another is stone fruits; citrus remains a continuing problem.

We have two tracks that we are pursuing with China. One is, with respect to the WTO accession talks, we have made it clear to China that a deal that is not good for American agriculture is not good, and that there is no way to trade that for something else. They understand this fully.

The second track is a bilateral track. We and the USDA are coordinating much more closely than in the past and, just as with grapes, we have pursued and now have achieved some market opening. We will handle the other issues one at a time.

Mr. HERGER. Thank you. Certainly keeping agriculture foremost and not trading it off is very important to this Subcommittee and a number of our Members, as you well know.

Another question: In your view, why does the United States have such a large trade deficit with China, larger than either the Europeans or the Japanese have in their trade relations with China?

Ms. BARSHEFSKY. Well, first of all, Europe and Japan do have significant trade deficits with China. Europe's last year was on the order of $15 or $16 billion; Japan's is upward near $20 billion now. Ours, of course, is more; it is $39 billion which is, as I indicated, somewhat troubling. One reason for the size of the deficit is the point I was making earlier to Mr. Matsui: Our export performance has been lagging.

Another reason for the size of the deficit has to do with something Mr. Matsui was talking about earlier, that is, a shift of productive capacity from the Asian Tigers to China and then the export of those goods from China. And I will give you a couple of examples.

If you look at footwear, where China is a major world producer and a major world exporter, China's share of U.S. exports moved from 9 percent to 50 percent over the last 5 years or so. The rest of Asia's share went from 51 percent to 5 percent. So you had movement between Korea, Singapore, Hong Kong, Taiwan—a movement of that capacity on footwear to China—and then the en-

suing exports from China rather than from the other Asian countries.

It's a very similar pattern with respect to sporting goods and toys, where China basically picked up the market share that had been held by other countries. And with some of those other countries we now have a trade surplus rather than a trade deficit.

The second reason for this deficit is a shift in capacity.

The third has to do with the way in which export values are counted, and this is a particular concern that the Chinese have expressed repeatedly. Somewhere between 50 and 70 percent of China's exports come through Hong Kong. Hong Kong marks up the value of those exports quite substantially. But when the exports come here, the full value is treated as an export from China, even though a substantial portion of that revenue resides in Hong Kong which, of course, even after reversion will maintain separate autonomous economic status. So this is yet a third reason why the numbers look as skewed as they do.

Mr. HERGER. Thank you.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Ambassador, you mentioned in your testimony that the United States had reached agreements with China in the intellectual property area, market access, and textiles.

Ms. BARSHEFSKY. Yes.

Mr. JEFFERSON. How are the Chinese enforcing these agreements and, in areas where they are not enforcing them as you wish, what steps are being taken to make sure that enforcement is realized?

Ms. BARSHEFSKY. Each of the agreements is a little bit different and I will take you through each briefly.

In textiles, in 1994, we negotiated an agreement with China which sharply curtailed their export growth to the United States. But there has been a persistent problem with China of fraudulent transshipment of textiles and apparel to the United States. Under the 1994 agreement, we imposed triple charges against China, meaning that we cut their quota down to triple the value of what was fraudulently transshipped. In the current agreement that we have with China, we have further cut their quotas because of the persistence of the transshipment problem as well as imposed additional monitoring and other restrictions on China.

We achieved a breakthrough agreement about 2½ years ago for the protection of intellectual property in China under which China revamped its entire administrative structure, and made judicial law changes at the central and provincial levels in order to attack the piracy problem. But we found that, about a year after the agreement was implemented, piracy rates had not declined. We went back again, threatening trade sanctions and demanding at that time the closure of 13 factories. China closed 15, not only the 13 we had demanded, and made additional changes. Now, a year later, China has closed about 40 factories, confiscated and destroyed about 10 million pirated CDs and CD–ROMs, has imposed very substantial fines as well as very hefty prison sentences on piraters, making 250 arrests within the last 12 months. And China instituted a reward system: US$37,000 for information leading to

the closure of pirating factories. So we do now see more significant compliance by China with its agreements.

In the case of market access, the most persistent problem has been the problem that Congressman Herger referred to: that is, the regular problem as to which I don't think our solution is entirely satisfactory.

Mr. JEFFERSON. May I ask another unrelated question? The jurisdiction of your office ought to be coterminous with that of this Subcommittee with respect to trade inasmuch as your office is the creature of the Ways and Means Committee's jurisdiction. Your jurisdiction does not involve issues like nonproliferation of nuclear weapons, nor does the jurisdiction of this Subcommittee.

The other issues you have been called upon to deal with in the context of MFN—the environmental issues for instance, and even the human rights questions—those issues don't come properly under the jurisdiction of this Subcommittee. It seems, then, something of an imposition; your office is supposed to be carrying out responsibilities coterminous with this Subcommittee's jurisdictional responsibility in these areas.

Does this seem that way to you? Is it kind of out of bounds with what you would expect to have to undertake, given that this Subcommittee doesn't have jurisdiction in these areas?

Ms. BARSHEFSKY. I don't think, Mr. Jefferson, that it is out of bounds. I do think, though, that your question points to a very important fact: that is, that there are limits to what trade policy alone can accomplish. That is to say, trade policy can be an important vehicle with respect to economic growth as well as with respect to the transmission of American values in a variety of areas. Because trade policy and trade is, in and of itself, a form of engagement it is, to that extent, a useful vehicle.

But there are limitations to what can be accomplished with respect to trade policy as distinct from the full range of policies and interests that the United States wishes to pursue. And in that regard, obviously I am grateful that we have people like Ambassador Eizenstat and Secretary Albright at the State Department as well as my Cabinet colleagues around the government.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. Madam Ambassador, Mr. Secretary, thank you for your testimony. I certainly agree that both of you are consummate professionals. And I appreciate particularly the bipartisan, pragmatic spirit that you bring to this issue. The work that you have done, Madam Ambassador, to open new markets and create new jobs, has truly been outstanding and it has been a pleasure to work with you.

Recently, I chaired a trade conference in Minnesota, as you know. About 14 Fortune 500 corporations which have a presence in my district were represented, as well as a multitude of small- and medium-sized businesses. The redundant theme from the 500 or so participants at that conference was, why not permanent MFN for China? Why do we engage in the exercise of almost self-flagellation annually? Why not permanent MFN status? I listened as I walked in to your colloquy with Mr. Houghton. Is the administration contemplating permanent MFN for China?

Ms. BARSHEFSKY. Congressman, certainly this year the focus is a 1-year waiver with respect to MFN. I think we would want to work with the Subcommittee and with you to discuss the policy options as we look ahead. But we believe that the focus this year, with respect to the President's determination, is the proper scope for the issue at this juncture.

Mr. RAMSTAD. But, certainly that is an option for subsequent consideration.

Ms. BARSHEFSKY. It certainly is.

Mr. RAMSTAD. Yes. And by the way, Madam Ambassador, let me take this opportunity to express my thanks for sending Don Phillips.

Ms. BARSHEFSKY. Yes.

Mr. RAMSTAD. Your deputy for Asia Pacific, who did a truly remarkable job as our keynoter—he was very, very impressive and, of course, second only to you. It would have been nice to have you, but I understand your schedule is hectic.

Let me also ask you, Madam Ambassador, what impact you think a revocation of MFN would have on China's WTO accession negotiations?

Ms. BARSHEFSKY. I think the negotiations would stop, which is moving in precisely the wrong direction. If we want to move China toward international norms, toward its share of international responsibility, toward being a constructive force in Asia and globally, we should not jeopardize a critical series of negotiations which are designed, in part, to accomplish those aims, at least with respect to trade.

Mr. RAMSTAD. Finally, if I may, Mr. Secretary, I would like to ask you a question. We continue to talk about economic engagement with China and how it contributes to opening and reforming China's economy. Do you have a sense of the coherency of China's internal economic reforms, the status of those reforms at this time in history?

Mr. EIZENSTAT. I was in China in March to try to get a firsthand picture of that. In some respects, it is reflected in the negotiations which Ambassador Barshefsky is leading, because the offers that they are putting down in the WTO discussions are a reflection of the degree to which they have made a commitment to, for example, free trading rights to accept intellectual property norms and the like.

I found that perhaps the biggest concern that they had, in terms of economic restructuring, is what to do with the state-run enterprises. They comprise some two-thirds of the urban work force, and they represent essentially the entire social safety net.

This is not a traditional Communist system where the government supplies cradle-to-grave benefits. They are significantly provided by the state-run enterprises, 50 percent of which lost money last year. They know that they have to do something about it. They know they have to restructure and streamline them. They are trying to encourage mergers between the healthy ones and unhealthy ones. But they really have not yet come to terms with how to streamline these, to make them work, as Ambassador Barshefsky was saying, in accordance with the WTO rules and still avoid social

destabilization and massive unemployment. And this, I think, is their biggest problem.

Having said that, there is no question that the economy is significantly more open than it was 5 or 10 years ago: the foreign investment to coventures, the Internet, and e-mail—workers can work and live where they want with much greater freedom than they could before. So it is a much more open system. But still, there are many, many restrictions reflected in the WTO negotiations which one can also see to both investment and free trade. They have come a long way. They have a long way to go.

Mr. RAMSTAD. Well, thank you both again. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman. I apologize for not being here. We had to do other things. But I am not going to take a long time; I have talked to both of these individuals privately enough. I only want to react to one thing. I would tell Ambassador Barshefsky that to me this focus on MFN sends the wrong message as to whether we renew or whether we deny. I am concerned about the emphasis placed on most favored nation. It is the only game in town, so that is what people do.

As you well know, my concern is the underlying progress we are making in getting China to understand fully what accession to WTO means: that in every port, every piece of paper means exactly the same thing at different times.

Mr. Eizenstat full well understands the next point I am making in terms of his European Union experience as former ambassador: that scientific standards are scientific standards, that they aren't pseudo, that they aren't disguised nontariff barriers, that "phytosanitary" means phytosanitary and not political.

These are measurements that I think reflect the understanding of China on what it means to be a full trading partner and not to receive something like MFN with the United States on a yearly renewed basis. How are we doing on educating and growing China to understand what her obligations would be if she were a full member?

The dialog with the gentleman from Louisiana and others gave me a little bit of flavor. Personally, I believe we have a long way to go, but I also believe we have come a long way. I think your statement about canceling MFN was made in that context and not in terms of the very narrow ball game of this year.

Ms. BARSHEFSKY. No. You know, for a long time China quite obviously had the view that its WTO accession would be on political grounds, not commercial or economic grounds. And so early attempts to educate China as to the rigors of the GATT system at that time—this is pre-WTO—fell largely on deaf ears. There was very little interest in appreciating the range of commitments, what those commitments would mean, and what it would entail with respect to altering China's trade regime. And there was little interest, because if you are—if you think you are going to get in on a free basis, why pay any attention at all?

In 1994, China set a deadline and said, If we are not in by the end of the year, then all of this will have been for naught. Well, China didn't get in at the end of 1994 and none of its major trading

partners supported its admission. And at that juncture, I think China went through a bit of an awakening. First, that the accession would not be on political terms. Second, that its level of knowledge, with respect to the now-WTO, was terribly limited and not well-understood within the Chinese ministry system or the Chinese leadership. And that is really the most critical point: that the Chinese leadership did not have an appreciation for the rigors of accession.

What we have seen since, that December 1994 incident to the present, has been a China much more attuned to and growing increasingly accustomed to what the rules are and what they mean in practice, looking at different countries to see the ways in which the rules operate. We see a Chinese bureaucracy finally being organized around the notion of making concessions across the government in order to achieve a particular outcome, with respect to the WTO talks, on a given range of issues.

We see them coming forward with offers that are not adequate, but that evidence a degree of understanding we had not seen before. And we see a seriousness in their demeanor that certainly before 1994 was rather lacking.

So all of that, I think, points to the good. That doesn't suggest whether we have a short way to go or a long way to go. I am merely commenting on the gestalt of the talks.

With respect to progress made, we have made some important progress on rules adherence, though there are a number of areas, with respect to rules like sanitary and phytosanitary issues, where we have not made the kind of progress we want to see. We have made little progress at this juncture on market access, but we expect China to come forward in Geneva at the end of July with revised market access offers with respect to good services and agriculture. I can't tell you now if they will be any good or not. They will certainly be better than what we have seen, but whether they will be sufficient in any respect we will have to determine.

Mr. EIZENSTAT. I would like to say, Congressman Thomas, only half jokingly, that having spent 2½ years dealing with the European Union in Brussels, I wouldn't overestimate the degree to which they understand phyto and phytosanitary standards when one has to push, as we did then and with Ambassador Barshefsky's help, to get them to round up soybeans and other products in when false scientific or inadequate scientific and sanitary and phytosanitary is used. It is a problem that is not exclusive to China.

Mr. THOMAS. Thank you very much.

Mr. Chairman, thank you. Oftentimes, we forget that real life is running against other examples and not against the clock or some projected desired goal. There's nothing wrong with projecting desired goals, but in the human condition, you have to look on a comparative basis as well. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Mr. Chairman, I know you have to—some of you have to go to the White House, so I will be very brief. This has been, I think, an exceptionally useful hearing, and welcome to Mr. Eizenstat as well as the Ambassador.

In the last few minutes, we have turned our emphasis to WTO accession, and I think that is where much of the battle needs to be undertaken. I think perhaps MFN is not a source of paralysis, but it has been a preoccupation.

I just want to say one word, though. If WTO is going to be a major arena as we have discussed it, as important as market access is—and I kind of chuckle because 10 years ago, a lot of people sitting in your chairs minimized the importance of market access—as important as market access is, as I have discussed, even more important in terms of a long-term strategy with China probably is the nature of their market. And we are going to press you and others and ourselves to face up to those issues.

Mr. Eizenstat, in your elaboration on page 6, for example, of issues relating to WTO accession: There is a lot of emphasis on market access, but relatively little reference to the impact of state-owned industries, their control of their economy, their control of wage structures. I think the notion that China is going to simply continue to produce low-end goods is a mistake in terms of a long-term strategy.

They are going to move more and more into the high-tech areas, into industrialization, with a low-wage structure that is controlled by the State, and which also controls a good portion of these enterprises in terms of subsidization.

And so if they are not faced in WTO, those issues are going to rob us of a chance at a long-term strategy vis-a-vis China, which is just one of the industrializing nations in this situation.

So I think Mr. Thomas' reference to WTO is highly useful. And I hope this hearing can further boost our focusing on these basic long-term issues.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you. And I want to express appreciation to you, Madam Ambassador, and to you, Mr. Secretary. Congratulations on your new slot. And we look forward to working with you both in an ongoing basis, not just on MFN for China. And with that, the Subcommittee stands in recess until 2 o'clock.

[Whereupon, at 12:35 p.m., the Subcommittee recessed, to reconvene at 2:04 p.m., the same day.]

Mr. RAMSTAD [presiding]. Welcome back to the Subcommittee on Trade. We will continue with testimony from our next panel, a panel of our distinguished colleagues. We will begin with Congressman Porter from Illinois. John, you will be followed by Congressman Frank Wolf from Virginia, Congressman Kolbe from Arizona, Congressman Ewing from Illinois, Congressman Blumenauer from Oregon, and finally on this panel Congressman Matt Salmon from Arizona.

I would like to remind the panel to try to keep your comments to 5 minutes, and, of course, as always, written statements will be inserted for the record.

Please proceed with your testimony, Mr. Porter.

STATEMENT OF HON. JOHN EDWARD PORTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. PORTER. Thank you, Mr. Chairman. I appreciate the opportunity to testify this afternoon. I have not testified before your Subcommittee before, but, Mr. Chairman, you look wonderful up there in the chair.

I come to this point having spent the last 16 years working on human rights issues all across the world as founder and cochairman of the Congressional Human Rights Caucus. More recently, I've worked the last 12 years or so on the issues involving the transference of Hong Kong to Chinese sovereignty as cochairman of the Hong Kong Caucus. I also worked very closely with Doug Bereuter on the Hong Kong Relations Act and Hong Kong Reversion Act, and sponsored legislation to protect Hong Kong journalists.

So, Mr. Chairman, I care very, very deeply about the people of China and about the people of Hong Kong, and there is no question in my mind that—I know that Frank Wolf and others will state this even more forcefully—but there is no question in my mind that China is one of the world's most egregious human rights abusers. And since Tiananmen Square, there has not been an improvement of the human rights situation in China; quite the reverse. People who believe in democracy have been hunted down or rounded up and, almost to the person, put into jail and held as political prisoners.

I have voted repeatedly over these years to cut off most-favored-nation trading status for China. That resolution has allowed us to vent our anger at the leaders in Beijing. It has sent very strongly a message of American concern and anger with what has happened within China regarding human rights. But, Mr. Chairman, very frankly nothing has ever changed.

President Bush and—although he ran in quite a different direction during the campaign of 1992—President Clinton both have said and shown that they will not cut off MFN for China, even if Congress votes to do so. President Bush at one time did veto and President Clinton would veto such legislation. The Senate often has not gone along.

It is clear that MFN is not going to be cut off. There isn't any doubt about that process. And what we end up doing is sending wonderful messages, but we have no policy to really impact China and to make changes that will bring about more quickly the values that we believe in deeply as a people: democracy, human rights, and the rule of law.

I also have come to believe that if MFN were cut off, there would be retaliation by the Chinese. American business would be invited to leave, or at least curtailed greatly. Our friends in Hong Kong, which is one of the great shipping points from China currently and certainly will be in the future, would be more hurt than any. And the engagement that we have had in creating greater free enterprise in China would simply be set back. And I believe very strongly—very, very strongly, Mr. Chairman—that if you establish economic freedom, then inevitably political freedom will follow. And we have to look only as far as South Korea and Taiwan to see the proof of that.

And I believe that for China as well eventually political freedom will follow the economic freedom that they have now created in their society. And it is in the interest of the United States to push for greater and greater economic freedom in China with the understanding that that will occur.

I also believe that MFN is really not a very good lever. You can only use it once. What do you do if you cut it off after that, especially if there is retaliation? So, Mr. Chairman, I believe we need a whole new policy regarding China. I believe the Clinton administration doesn't have one, except to say that we shouldn't cut off MFN and we should be engaged. I think that is fine as far as it goes, but, very frankly, I think we need a whole new policy in China, and we need something that the Congress can focus on to provide that policy.

Most recently, a number of us have gotten together to sit down and propose not an alternative to MFN—some people may see it that way—but a set of policies that we can adopt into law and have the administration follow that have a real chance of moving Chinese society toward those values that we believe in deeply.

The two center points of this resolution will be a much stronger commitment by the United States to VOA, Voice of America, and RFA, Radio Free Asia, broadcasts to China. We believe that if we can increase the authorization and appropriation by about $40 million, that we can have 24-hour-a-day broadcasts by both radios into China in the three major languages plus Tibetan. It would involve a greater commitment to the National Endowment of Democracy working through nongovernmental organizations, NGO's, to impact Chinese society, and it would contain, Mr. Chairman, a number of other initiatives involving a voluntary code of conduct for American businesses doing business in China, exchanges of legislators, exchanges of students, expanded human rights reporting, a registry to identify people who are political prisoners, the denial of visas to known human rights abusers and many, many other initiatives. I believe these are things that can really help to change Chinese society.

And so, Mr. Chairman, I simply wanted to come here today to say that I believe that MFN is really a dead end for the United States. It is a wonderful device for us to send messages, but it really does nothing further than that. We need a whole new policy toward China to really change that society, to ensure that Hong Kong becomes the pill that is difficult to swallow. Because I believe that Hong Kong's reversion to Chinese sovereignty will ultimately have a greater impact on China than China will have on Hong Kong, and that the basic freedoms—the basic human rights, the hoped-for democracy, and the rule of law that we believe in so deeply—will ultimately become part of Chinese society and be available to every Chinese citizen, just like they are to every American. I thank for you the opportunity to testify.

[The prepared statement follows:]

Statement of Hon. John Edward Porter, a Representative in Congress from the State of Illinois

Mr. Chairman, I appreciate the opportunity to come before the committee today to express my views on the subject of Most Favored Nation (MFN) trading status for the People's Republic of China.

I have long been an outspoken critic of the Chinese Government—its deplorable human rights record defies description in the brief time I have today, and the Committee will no doubt hear extensive testimony from others on this subject. Over the years, I have voted to disapprove MFN for China, not because this was the best course of action available to us, but out of a deep and growing frustration with both China's human rights situation and our inability to bring about positive change in this area. My frustration has intensified in recent years, in the face of chaotic and poorly managed policy shifts by the Clinton Administration.

As Members of Congress, we have extremely limited tools with which we can impact our nation's foreign policy. Because Congress does have jurisdiction over trade, Members who share my frustrations have naturally turned to the annual MFN renewal process to push for more attention from U.S. and Chinese leaders to our legitimate and deeply-felt concerns. This plan of action had mixed results prior to 1994, but there were some successes—prisoners were released and the Chinese Government would otherwise make a show of attention to our complaints. The 1994 policy reversal, however, destroyed any leverage the U.S. may have had with the MFN process and proved to the Chinese that the MFN threat was an empty one.

Since that time, Congress and the human rights community have struggled to return human rights concerns to prominence in U.S.-China relations. As I said, I have voted against MFN for China, but I have done so with an eye towards more effective means of moving our policy forward in areas other than trade. I supported past efforts, by my colleague Congressman Doug Bereuter and others, to advance proactive China policy legislation. I led the fight to establish and provide funding for Radio Free Asia, which began broadcasting into China last year. And I have been a leading proponent of strong and separate U.S. ties with Hong Kong, both before and after the reversion to Chinese control later this month. I am not alone in this search for a smarter, more productive and more nuanced Congressional debate on China, but for the past few years such efforts have lacked support from those in a position to make changes happen.

This year there may be a shift in fortunes, however, and I hope those of us who care about the people of China and their future can take advantage of this opportunity to move U.S.-China policy beyond the high-volume MFN debate toward something more productive for all concerned. For this reason, Congressman David Dreier and I brought together a group of colleagues who share a strong commitment to human rights, but have divergent views on MFN. We asked this informal group of Members to come up with positive and forward-looking proposals which could form the basis of a legislative effort to define America's policy towards China. What we got back was interesting—creative and hopeful ideas on moving China towards democracy and accepted standards of behavior, mixed with caution about the dangerous potential of a China which is acting out at home and abroad—and I believe that this exchange captures the paradox of our dealings with China. At its essence, it is the old Reagan doctrine with a new twist—"Engage, but verify."

From the ideas that Members gave us, we have attempted to craft legislation which will make Congress a forceful player in the U.S.-China policy debate and encourage the Administration to integrate concerns about human rights and democratic development into all our dealings with China. We will be introducing this legislation with the hope that it can be considered during this year's MFN debate, but if it is not, we will move it through the regular committee process. The goal of this legislation is to imbue our policy towards China with the values which we represent as a nation. This legislation will provide increased funding for broadcasting by Radio Free Asia and Voice of America, with a goal of 24-hour broadcasts into China in multiple languages, and increased funding for democracy building activities in China. In addition, reporting on human rights and other areas of concern would be expanded—including publication of a list of companies doing business in the United States which are affiliated with the People's Liberation Army—and both public and private exchanges between the U.S. and China would be increased. Visas for travel to the United States will not be available to those who have committed human rights violations or are involved in proliferation of weapons or other sensitive technologies. U.S.-based businesses will be encouraged to adopt a voluntary code of conduct which would ensure that they are good corporate citizens in China. U.S. policy on the extension of concessional and other loans for projects in China, through both international institutions and our bi-lateral ones, will be strengthened.

Human rights, freedom, democracy, free-market economics and the rule of law are values which define America. These ideals should be reflected in our foreign policy and drive the decisions we make as a nation. Under our current policy, some of these ideals are sacrificed for the alleged benefit of others. Such a policy is doomed to failure, for all of these ideals must work together to create free, prosperous and stable societies. If it is the intention of the United States to bring China into the community of nations as such a society, we cannot promote these ideals selectively. MFN for China should be one part of a larger, multi-faceted policy which brings us closer to this goal. I will support MFN for China this year, and I will continue to fight for a broad-based policy which has as its goal the improvement of U.S.-China relations and improvement in the lives of the Chinese people—economically and politically. I hope that I can count on the support of my colleagues—regardless of their personal views on MFN renewal—in this endeavor.

I again thank Chairman Crane and the members of the Committee for the opportunity to testify today and I wish the Committee good luck as we move forward with this process.

Mr. RAMSTAD. Thank you very much for your testimony.

The gentleman from Virginia, Mr. Wolf.

STATEMENT OF HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WOLF. I thank you, Mr. Ramstad. At the outset, let me just stipulate there are good people on both sides of this issue, and I want to stipulate that out front. Second, I want to stipulate that I cannot tell you how strongly I feel about this issue. This is a moral issue. This is a religious freedom issue. This is a national security issue. This is a slave labor issue. And this is a trade issue.

The conditions in China are not getting better; they are not, they have not, and, if left alone, they will not. They have arrested and imprisoned Catholic priests and bishops, and fundamentally nothing has been done by this Congress or this administration to get them out of jail. There are Catholic pastors, Catholic priests that are in jail; many have been in jail for a number of years. There are Protestant pastors that are in jail and house churches that are raided on a weekly basis, and this Congress does nothing and this administration does nothing with regard to this issue.

This administration—these Beijing people are persecuting Moslems, and who speaks out for the Moslems? There are actually more Moslems than there are Christians in China. And nobody speaks out for the Moslems. They cracked down on Tibet. They have expelled the Dalai Lama. They have kidnapped the Panchen Lama. And they have done brutal things, which we wouldn't even want to put in the record, to Buddhist monks and Buddhist nuns.

They have cracked down on all the dissidents; there are no dissidents outside there now. There are forced policies of abortion. This is a prolife issue. Whether you want to say it is or is not, it is. They have forced sterilization. And in particular the way they treat young women is a disgrace. They have human-organ donor programs where they shoot people and as they drop, they take their kidneys and then transplant them within 3 hours.

There are more gulags in China than there were in the Soviet Union when Solzhenitsyn wrote the profound book "Gulag Archipelago." There are more there than there were in the Soviet Union.

They sold chemical weapons to Iran and wanted to destabilize the Middle East. China sold missile-related components to Syria. They sold weapons to Saddam Hussein that were then used to kill American servicemen in Desert Storm. China has sold over 1.2 billion in arms. Their military rule is in Burma, which seems to be following a low road in their own human rights policies. And the Burmese opium begins to flow out through China and in through the veins of American children.

China continues its military buildup, according to the latest intelligence. They are developing an ICBM missile capable of hitting the west coast, hitting our west coast. They tried to sell AK–47 assault weapons and shoulder missiles that could have taken planes out of the sky to street gangs in California.

The Chinese People's Liberation Army raises millions of dollars in U.S. securities and markets through elusive systems. The trade deficit is $40 billion and growing. And don't forget that the Chinese Government tried to influence our political process, with thugs attending coffees at the White House. And where is Charlie Trie today? Charlie Trie is in Beijing. Where is John Huang with regard to testifying? Where is the Riady family? They are not here.

How should we react? What shall we do? I think some have called for a constructive engagement, but nobody has engaged. The Congress hasn't engaged; they all go down to the floor and give speeches for constructive engagement, and then the bill passes, the Chinese get MFN, and the engagement goes away. Sometimes the engagements are trips to China, paid for by people who are connected with the Chinese Government. But they never visit the priest in jail; they never ask to see the bishops. They never try to go to the house churches. And the engagement pretty much ends.

Some argue that taking away MFN would set us back, would create a more hostile environment. Perhaps. Maybe it would, but maybe it wouldn't.

In 1987, Congressman Smith, Tony Hall, and myself offered the proposal to take away MFN from the Ceausescu administration. The same arguments used against us then are being used now.

Let me quote the former Chairman of this Subcommittee, Danny Rostenkowski. He said, "I believe the authors of this amendment to take away MFN for Romania are well-intentioned. The proposed remedy is the wrong one. I, too, am concerned about the people of Romania, that they be able to pray freely, immigrate freely, and enjoy basic human rights." Mr. Rostenkowski went on to say, "Where we differ is the means to achieve improvements in this area. The amendment sponsors would cut off our most important ties to Romania"—slip the word China in there, too—"in an effort to enforce the Romanian Government to bend to our will."

"However," Rostenkowski said, "I firmly believe that the effect of cutting off or suspending MFN trading status would be just the opposite of what they seek; namely, a backlash by the Romanian Government against its people." Not so.

When I used to visit Romania during the Communist days, the people would tell me that they heard on Radio Free Europe that the U.S. Congress voted to deny MFN. That was an encouragement to them and let them know that someone cared. Sam Gibbons made

the same argument, which I will offer for the record. Bill Frenzel made the same oral argument.

But the House did vote, in one of its finest hours, to suspend MFN for Romania and it rocked the entire system. People in Romania heard on Radio Free Europe that the United States stood with them, and it gave them hope. It cut the dictators down to size. It sent a message that the United States stood with those who were being persecuted. And less than 2 years later, Ceausescu fell. Perhaps there was no link, but many in Romania believe there was a link, and I believe there was a link, too.

We denied all these benefits for South Africa, and it made a tremendous difference. One of the worst votes I ever cast in this Congress was my first vote against sanctions. I publicly apologized for that vote because it was the wrong vote. Sanctions brought South Africa down and changed the apartheid government; the same with regard to Chile. And why doesn't this Congress then pull back with regard to Cuba? We have an inconsistent policy with regard to Cuba and Burma, and I know why. We must also remember there have been positive aspects when we have done these things.

Voting to revoke MFN in the House would send the same messages of hope and encouragement to the many Chinese in prison who are suffering for their faith. According to the Wall Street Journal, 67 percent of the Americans surveyed already believe that the United States should demand that China improve its human rights.

And people in this Congress say that the gender gap with regard to women is 70 percent. Voting to revoke MFN would put the House on the side of the American people and, I believe, would also put us on the side of history. When Clinton delinked, the problems got worse.

In closing, Mr. Chairman—I know I have gone over my time—imagine for just a moment that you are a Catholic priest who was sent to prison for saying mass or administering the sacraments—the bread and the wine—which we know has happened. You have been beaten, you have been tortured, and you have been denied food or been forced to endure back-breaking labor. Just imagine that, after China had done all this—plus tried to buy our government through the coffees and all the other activities we think took place through the Riady family—just imagine you heard that the U.S. Congress had voted to give China MFN. Just imagine how demoralized you would feel.

But now imagine that you heard from someone—perhaps your mother, your father, a friend, or a brother who heard through the Internet, fax, telephone, Radio Free Asia, or some way—that the U.S. Congress had voted to take away MFN. Wouldn't you feel a sense of hope and encouragement, a sense that someone cared and that someone was speaking out for you?

Chris Smith and I visited Perm Camp 35; we interviewed Sharansky's cellmate—we have all of this on film. This man in Perm Camp 35—in the darkness of the Ural Mountains, under communism—told Chris and me that they knew of the Reagan administration's policy of standing firm with regard to human rights. They knew that 250,000 people had rallied on the Mall on behalf of dissidents in the Soviet Union; they knew it. How did they know

it? There were no fax machines; there were no telephones. There was nothing. The KGB ran the whole place. I don't know how they knew it, but they knew it. And I will tell you: the bishops, the priests, the ministers, the Moslems, the Buddhists, and the people of no faith will all know whether or not we speak out, one way or the other.

I believe, frankly, that we are not going to take away MFN. We don't have the votes in the other body to do it, and if we did it the President would override the veto. But I would tell you to send a message: Send a message to that priest or that minister or the dissidents would do more than we can do in any other way. So I strongly urge this Subcommittee to vote in support of the Salmon resolution to deny MFN.

[The prepared statement follows:]

Statement of Hon. Frank R. Wolf, a Representative in Congress from the State of Virginia

Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to share my thoughts on why the House of Representatives must vote to revoke Most-Favored-Nation (MFN) trade status for China. This is the year the United States must take decisive action on this issue.

There are good people and there are compelling arguments on both sides of this debate. But, it is my view that revoking MFN is the right thing to do.

At its heart, this issue is a moral issue; it's a religious freedom issue; it's a national security issue; it's a slave labor issue; and it's a trade issue. But, the debate on MFN is not only about trade, it's about our values as a nation. A recent traveler to China told me that the only issue related to the United States being reported in the Chinese press is MFN. No matter what we like to think or try to do, the annual debate on MFN is and will always be about more than trade.

Virtually nobody can argue that human rights are getting better in China. They are not. They have not. And, if left alone, they will not.

• The Chinese government continues to arrest Catholic bishops and priests and Protestant pastors for practicing their faith or worshiping outside government control. They are beaten and tortured.

• The Chinese government has also intensified its crackdown on the people of Tibet—stealing the very soul and culture of Tibet. Monks and nuns continue to be beaten, imprisoned and, sometimes, killed. The Dalai Lama has been exiled for years and his successor, the Panchen Lama, has been stolen away, jailed with his family and replaced by a puppet of the People's Republic of China.

• The Chinese government also continues to persecute the Muslims in Western Xinjiang Province. Nobody speaks out for the Muslims.

• The Chinese government has cracked down on dissident activity—locking up all well known dissidents.

• China has outrageous, brutal and inhumane policies on abortion and forced sterilization. Their treatment of many orphaned infants, particularly girls, is unspeakable.

• The Chinese government has a thriving business of harvesting and selling for transplant, human organs from executed prisoners.

• China maintains a system of gulags—slave labor camps—as large as existed in the Soviet Union. They are still used for brainwashing and "reeducation through labor."

• China sold missiles and chemical weapons technology to Iran.

• China sold missile-related components to Syria and advanced missile and nuclear weapons technology to Pakistan.

• China sold weapons to Saddam Hussein that were used against American troops during Desert Storm.

• China has sold over $1.2 billion in arms to military rulers in Burma who seem to be following the low road with their own human rights and Burmese opium makes its way through China into the veins of American teenagers.

• China continues its military buildup—the latest intelligence reports indicate that Beijing is building ICBM missiles capable of hitting the Western United States, U.S. allies in Southeast Asia or U.S. military installations in the Pacific. Beijing's purchase of 46 American-made supercomputers, which can be used to design lighter warheads to put on the missiles.

• Chinese government officials sold AK–47 assault weapons and offered to sell shoulder-fired missiles to American street gangs.

• China's People's Liberation Army (PLA) raises millions of dollars in the United States securities' markets and through a series of elusive front companies which export goods to the United States.

• The U.S. trade deficit with China continues to skyrocket—approaching $40 billion—while we struggle with their disregard for copyright laws, intellectual property laws and anti-slave labor agreements. Pirated Windows 95 was on sale in the streets of Beijing before we could buy the real thing in Washington, D.C.

• China restricts access to its markets for American goods, charging an average 35 percent tariff on American goods compared to the 2 percent tariff charged on Chinese exports to the U.S. If we took away MFN from China, the tariffs on Chinese goods coming into the U.S. would be roughly the same as the tariffs charged on American goods exported to China.

And don't forget that Chinese officials tried to influence our elections and buy their way into the American political process.

How should the United States react to these facts? What should we do?

Some, the President and his administration included, call for constructive engagement and dialogue—teaching by example. But nobody has engaged. Not the Congress, not the Administration, not American business engaged in China trade. There has been no engagement; no dialogue; no constructive progress. Those who have called for engagement have not engaged.

Some argue that taking away MFN would set us back—would create a more hostile environment for Christians and other religious believers, would result in more persecution and would cause China to ally itself with our adversaries.

Perhaps. None of us really knows for sure. But, my whole life experience tells me it would have the opposite effect. I think it's useful to remember history.

In 1987, the House of Representatives debated a bill I sponsored that would have suspended MFN status for Romania for six months. At the time, Nicolae Ceausescu was ruling Romania with an iron fist, bulldozing churches and synagogues, killing and imprisoning Catholic and Protestant clergy, stealing sensitive Western technology and supplying aid to terrorist regimes. Romania maintained a $588 million trade surplus with the U.S—a 3.4 to 1 ratio—at the time the highest trade imbalance we had with any country in the world. We heard the same arguments against cutting off MFN then.

Let me just quote from the floor debate from April 6, 1987. Congressman Dan Rostenkowski, then chairman of the Ways and Means Committee, said:

"I believe the author of the amendment is well-intentioned, the proposed remedy is the wrong one. I, too, am concerned about the people of Romania—that they be able to pray freely, emigrate freely, and enjoy basic human rights. Where we differ is the means to achieve improvements in these areas. The amendment's sponsors would cut off our most important ties with Romania in an effort to force the Romanian government to bend to our will. However, I firmly believe that the effect of cutting off or suspending MFN trading status would be just the opposite of what they seek—namely, a backlash by the Romanian government against its people."

Congressman Sam Gibbons, also a distinguished member of this committee, argued against suspending MFN by asserting that nobody in the government supported revoking MFN, that there were no religious prisoners in jail, that Romanians were printing their own Protestant Bible and that Ceausescu was an independent thinker who had separated himself from the Warsaw Pact. He said, "I am not here apologizing for Romania or trying to convince anybody it is a Garden of Eden. But everybody knows that the best way to deal with Romanians is to use the leverage that we now have and to continue getting concessions out of them."

Congressman Bill Frenzel argued that revoking MFN would "entirely eliminate our ability to influence—now and in the future—the treatment of those who are suffering there.... While temporarily eliminating our own anger, adoption of the Wolf amendment would leave us empty-handed and powerless to continue achieving successes we have had increasing our emigration levels....The Wolf amendment may make us feel good, but we ought to think about the people we want to help. We should not give up on the only way we have to help them."

But the House did vote to suspend MFN to Romania for six months and it rocked the entire system. People in Romania heard on Voice of America that the United States had stood with them and it gave them hope. It cut the ten-foot-tall dictators down to size and sent a message that the United States stands with the little guy—the victims of totalitarian regimes.

Less than two years later, Ceausescu had been deposed and Romania was on its path to democracy. Perhaps there is no link, but I believe there was.

We must also remember the positive effect sanctions had on the situation in South Africa—they made all the difference.

Voting to revoke MFN in the House of Representatives would send the same message of hope and encouragement to the many Chinese who desire democracy and religious freedom.

According to a recent Wall Street Journal poll, 67 percent of Americans surveyed already believe that the United States should demand that China improve its human rights policies or lose MFN. Voting to revoke MFN would put the House of Representatives on the side of the American people and on the side of history.

We know that it has been three years since President Clinton de-linked trade from human rights in 1994 and there has been no progress. No progress on human rights. Things have gotten worse. No progress on proliferation. China continues its unsavory activity. And very little, if any, progress on China's willingness to open its markets to U.S. goods. We know our current policy is not working. It's pretty clear.

Just imagine if you were a Catholic priest in prison for saying Mass or administering the sacraments. You had been beaten or tortured or denied food or forced to endure back-breaking labor. Just imagine if you heard that the U.S. Congress voted to give China MFN. Just imagine how demoralized you would feel. But imagine you heard from someone—perhaps your mother, brother or friend—who heard on Voice of America that the U.S. Congress voted to take away MFN. Wouldn't you feel a sense of hope and encouragement? A sense that someone cared and was speaking up for you.

I would and that's why I support revoking MFN. I hope you will too.

Mr. RAMSTAD. Thank you very much for your testimony, Mr. Wolf.

The gentleman from Illinois, Mr. Ewing.

STATEMENT OF HON. THOMAS W. EWING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. EWING. Thank you, Mr. Chairman. It is difficult to follow my colleague, Mr. Wolf, and also Mr. Porter; but I want to thank you and express my appreciation for the opportunity to speak before this Subcommittee on this important issue.

I will summarize my prepared statement in the interest of time and would like to request that my full testimony be entered in the record.

I am a strong supporter of most-favored-nation status for China. In fact, I was first elected to Congress in a special election in 1991 and, after hearing the testimony of this small group of Members, you can imagine what it was like on the floor that day—my first day in Congress—having the opportunity to vote on this very controversial issue.

I was in favor of most-favored-nation status for China then. I am even more convinced now that it is the right policy for advancing American interests.

Since we began granting most-favored-nation status to China 17 years ago we have witnessed, I believe, a tremendous gain in the standard of living, freedom to work, and have witnessed the creation of a middle class that is emerging as a powerful force for change within China.

As we all know, there is a lot of room—a lot of room—for improvement in these areas in China. No one that I know of disagrees with that. However, there is significant recent historical evidence to support the argument that economic freedom gives birth to polit-

ical freedom. Take Korea or Taiwan, for example: They have made major strides in the last 2 decades.

The point that I want to make is that the Chinese people, like their neighbors in South Korea and Taiwan, will gain more and more power over their government and become less and less tolerant of unjust governmental practices as the Chinese people increasingly become the source of their own wealth and power. In other words, as the economic liberalization and expansion of the middle class continues, the Chinese Government will become increasingly reliant on the Chinese people, not the other way around as is currently the case.

I would like to turn my focus to another subject close to my heart, and that is agriculture. Agriculture has a unique role among American exports. While the total U.S. trade position has been in a deficit since 1971, U.S. agricultural exports have consistently been in the surplus.

The United States has an enormous comparative and competitive advantage in agriculture: We have the combination of the best farmland, quality infrastructure, and high technology. The result is our continued global dominance in exporting agricultural goods.

However, with dominance comes the reliance on foreign markets. No one else in the U.S. economy has as much to lose by restrictive trade practices as the American farmer. Revoking MFN would undoubtedly freeze U.S. farmers out of the Chinese market, only to benefit their foreign competitors. Producers in Latin America, Australia, and Europe, while less efficient than U.S. farmers, will certainly leap for the opportunity to gain market share in China.

Finally, I would like to mention the bill introduced by Representative Doug Bereuter and myself. The China Market Access and Export Opportunity Act represents a long-term policy alternative, and one that is far superior to our current practice of annual renewal.

This bill would authorize the President to snap back tariffs to December 1994 levels if he certified that China is not making a serious effort to gain entry into the WTO. Upon gaining membership into the WTO, this bill would grant China permanent MFN.

Getting China into the World Trade Organization is of paramount importance. We must take this opportunity to lock in market reforms in China. American companies and workers deserve the right to compete for markets and customers throughout the world. They deserve our best efforts to pry open foreign markets; buffeting and posturing during our annual debate does nothing to help that.

Thank you, Mr. Chairman. I would be glad to answer your questions.

Mr. RAMSTAD. I thank my friend for your testimony and assure you that your full statement will be included in the record with the statements of all the other witnesses.

[The prepared statement follows:]

Testimony of Representative Thomas W. Ewing

Before the House Ways and Means Committee

Subcommittee on Trade

June 17, 1997

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished panel on the subject of Most-Favored-Nation status for China. I am a strong supporter of MFN for China, and in fact, when I was first elected to the Congress in a special election in 1991, my first vote was on this issue. I was for MFN then and I am even more convinced now that it is the right policy for advancing American interests within China. It is important, when discussing China, to distinguish between the Chinese people and the Chinese government. Because you can be for the Chinese people and against the Chinese government. Since we began granting MFN to China sixteen years ago, we have witnessed tremendous gains in standard of living, freedom to work, and we have witnessed the creation of a middle class that is emerging as a powerful force for change within China. As we all know, there is lot of work in these areas that needs to be done. However, there is significant recent historical evidence to support the argument that economic liberalization begets political liberalization. Take South Korea for example, ten years ago it would have been unthinkable that former Presidents would the subject of corruption investigations. Political accountability in South Korea in the mid-1980s was just not there. Taiwan is another example and I would argue that the free,

democratic elections that they recently held were as unthinkable fifteen years ago as elections in China are today. The point that I am trying to make is that the Chinese people, like their neighbors in Korea and Taiwan, will gain more and more power over their government, and become less and less tolerant of unjust government practices, as they become the source of wealth. In other words, as the economic liberalization continues and the entrepreneurial spirits take hold, the Chinese government will become increasingly reliant on the Chinese people and not the other way around as is currently the case. How many wealthy and economically liberalized countries in the world have human rights problems?

I would like to turn my focus to another subject that is close to my heart and that is agriculture exports. Agriculture has unique role in our export portfolio. While the total US trade position has been in deficit since 1971, US agriculture exports have consistently been in surplus. The US has an enormous comparative and competitive advantage in agriculture. We have the combination of the best farmland, quality infrastructure, and high technology that results in our continuing global dominance in exporting agricultural goods.

However, there is no other sector of the US economy with as much to gain or lose by restrictive trade practices as the US ag industry. Our dominance throughout the world has led US farmers to depend on foreign markets more than any other sector in the US economy. The vote on China MFN status could, for all practical purposes, be dubbed "Farm Bill 2." Revoking MFN would undoubtedly

freeze out US farmers from the Chinese markets only to the benefit of their foreign competitors. To illustrate the importance of exports and the Chinese market to American agriculture I'd like to share some startling statistics with you.

- Currently, more than one million Americans have jobs that depend on U.S. agricultural exports. Every billion dollars in additional agricultural exports helps create nearly 20,000 new jobs -- in production, processing, marketing, transportation and shipping, as well as in other industries that supply goods and services relating to agriculture. USDA expects agriculture exports to exceed $60 billion this year, accounting for nearly one-third of domestic production. In addition to boosting farm income, such exports are expected to generate approximately $100 billion in related economic activity, resulting in a positive trade balance of $30 billion. This reduces the overall U.S. trade deficit, provides billions of dollars in additional tax revenues at every level, and creates needed jobs throughout the economy.

- China's feed grain consumption over the past four years has climbed by over 50 million tons -- the biggest surge in world history. Grain for animal feed now accounts for 25 percent of compared to 50 percent in the US and Europe.

- Meat consumption in China is growing 10 percent a year, or a staggering 4

million tons annually. And yet, per capita meat consumption is only 12 percent of that of the U.S. Similar rising consumption rates prevail for eggs, beef, and other food items. In two years, China has swung from being a net exporter of grain to importing 16 million metric tons. A trend that appears unlikely to reverse itself.

- China's consumption of corn -- more than 80 percent of which goes into animal feed-- expanded by a huge 10 million tons in 1995, to 105 million tons, compared with total U.S. corn output of 192 million tons.

Revoking MFN would take the U.S. out of the Chinese market at a critical point in China's market development and the void from our departure would gladly be filled by our competitors in Latin America, Europe and Australia. Producers in these countries, although less efficient than U.S. farmers, would certainly leap at the opportunity to gain market share in China.

Finally, I would like to mention a piece of legislation introduced by Rep. Doug Bereuter and myself. The China Market Access and Export Opportunities Act represents a long-term policy alternative and one that is far superior to our current practice of annual renewal. This bill would authorize the President to snap-back tariffs to December, 1994 levels if he certifies that China is not making a serious effort to get into the WTO. Upon gaining membership into the WTO, this bill would grant China permanent MFN. Getting China into the World Trade Organization is of

paramount importance. We must take this opportunity to lock-in market reforms in China. American companies and workers deserve the right to compete for markets and consumers throughout the world. They deserve our best effort to pry open foreign markets. Bluffing and posturing during our annual debate does nothing to help them.

I appreciate the opportunity to speak to you today and I look forward to working with the Subcommittee on the Bereuter-Ewing legislation at a later date. I would be happy to answer any questions that Members may have.

Mr. RAMSTAD. Thank you very much.

The next witness, the gentleman from Oregon, Mr. Blumenauer.

STATEMENT OF HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. BLUMENAUER. Thank you, Mr. Chairman.

There is little debate or disagreement on the objectives of American foreign policy regarding China. Most of us agree on the need to encourage the Chinese to improve their record on human rights. We also agree on the need to enlist the Chinese in the effort to achieve world peace and greater equity in trade. After all, China is the world's most populous country, and has the most rapidly growing economy of the nineties.

However, the different approaches to achieving these goals could not be more stark. The evidence suggests cutting ourselves off from China will be counterproductive and will continue the sad saga of the United States misjudging and mishandling its Chinese relationship.

During the last century, a sledgehammer approach to force Chinese compliance with our foreign policy objectives has consistently failed. As a result, the Chinese, with arguably the oldest culture in the world, view us with suspicion and, in some instances, hostility.

During extraordinary circumstances in World War II, while more than a million Japanese troops were on Chinese soil and we were giving billions of dollars in aid, the Chinese showed virtually no willingness to follow our direction.

During the Korean war, the China lobby's unrealistic and misguided activities encouraged Gen. Douglas MacArthur's tragic misreading of China and its intentions, leading to the death of tens of thousands of American soldiers, the waste of billions of dollars, and ultimately to his dismissal by President Truman. MacArthur's actions have ramifications to this very day, as the Korean penin-

sula is still the most likely spot on Earth to engage American troops in hostile action.

Others have and will continue to speak to the economic folly of abandoning a huge and rapidly growing market for U.S. goods. Others have and will make clear to this panel that the potential for huge future markets is important to agricultural areas like the Midwest, the Northwest, and California. Others will also make clear that our increasingly high-tech oriented economy has nothing to fear from China's increase in low-tech product manufacturing. These are all fine arguments, but they miss an important point.

I believe Congress has a responsibility to act as a partner with the administration in supporting and contributing to the formulation of U.S. foreign policy. I strongly identify with the approach embraced by Mr. Porter in terms of dealing with specifics. We accomplish these objectives with sound legislation and by having the wisdom and restraint to play our appropriate role, even though it may not be the most popular position at the time.

The U.S. Government has achieved some significant recent foreign policy success with the Chinese, notably on the Korean peninsula where the Chinese are a stabilizing influence—perhaps the only stabilizing influence.

We have made progress protecting American intellectual property and textiles with various trade agreements over the years. If we abandon these efforts and cut off the Chinese, I believe we will at best befuddle them, at worst enrage them. If we deliberately isolate ourselves from China, I believe we make it much harder to negotiate with the Chinese: for they will shift their markets to Europe, to other Asian countries, and to our agricultural competitors around the world.

There is no evidence that any other countries have the slightest intention of supporting the United States in a policy out of step with the rest of the world, unlike what happened in South Africa, when the entire world was on our side.

The most telling example for me is to be found in the apprehension surrounding transfering of the government of Hong Kong back to mainland China.

Opponents of our continuing relationship with China cite concern for the future of Hong Kong as justification against for their position. Yet across the spectrum of opinion and political philosophy in Hong Kong—including Christopher Patten, the current and last Governor General of Hong Kong—there is unwavering support for us to stay the course and not disrupt the Chinese relationship with MFN revocation.

The advancement of economic and political freedom for the Chinese and the protection and promotion of world peace will be far better served if the United States does not isolate ourselves. We should refrain from playing politics at home with a failed strategy from the past, and instead we should become a leader in the family of nations with sane policies for the next century.

I appreciate your courtesy in allowing me to enter my feelings and thoughts in the record.

[The prepared statement follows:]

Statement of Hon. Earl Blumenauer, a Representative in Congress from the State of Oregon

There is little debate or disagreement on the objectives of American foreign policy regarding China.

Most of us agree on the need to encourage the Chinese to improve their record on human rights. We also agree on the need to enlist the Chinese in the effort to achieve world peace and greater equity in trade. After all, China is the world's most populous country and has the most rapidly growing economy of this decade. However, the different approaches to achieving those goals could not be more stark.

The evidence suggests cutting ourselves off from China will be counter-productive and will continue the sad saga of the United States misjudging and mishandling its Chinese relationship.

During the last century, the sledgehammer attempt to force Chinese compliance with our foreign policy objectives has consistently failed. As a result, the Chinese—with arguably the oldest culture in the world—view us with suspicion and in some instances hostility.

During extraordinary circumstances in World War II, when there were more than a million Japanese troops in mainland China, when we were giving billions of dollars in aid to the Chinese, their government showed virtually no willingness to follow our direction.

During the Korean War, the China lobby's unrealistic and misguided activities encouraged General Douglas MacArthur's tragic misreading of China and its intentions, leading to the death of tens of thousand of American soldiers, the waste of billions of dollars, and ultimately to his dismissal by President Truman. MacArthur's actions have ramifications to this very day as the Korean peninsula is still the most likely spot on earth to engage American troops in hostile action.

Others have and will continue to speak to the economic folly of abandoning a huge and rapidly growing market for United States goods. Others have and will make clear to this panel why the potential for huge future markets is important to agricultural areas like the Northwest, California and the Midwest. Others will also make clear that our increasingly hi-tech oriented economy has nothing to fear from China's increase in low-tech product manufacturing. These are all fine arguments, but they miss an important point.

I believe Congress has a responsibility to act as a partner with the Administration in supporting and contributing to the formulation of U.S. foreign policy. We accomplish these objectives with sound legislation and by having the wisdom and restraint to play our appropriate role even though it may not be the most popular position at the time.

The United States government has achieved some recent foreign policy success with the Chinese, notably in the Korean peninsula where the Chinese are a stabilizing influence, maybe the only stabilizing influence. We have also made progress in protecting American intellectual property and textiles with various trade agreements over the years.

If we abandon these efforts and cut off the Chinese, I believe we will at best befuddle them, at worst enrage them. If we deliberately isolate ourselves from China, I believe we make it much harder to negotiate with the Chinese, for they will shift their markets to Europe, to other Asian countries and to our agricultural competitors around the world.

If we impose sanctions out of a belief China will bend to our wishes automatically, I say witness Cuba, which is still operating under a repressive regime after four decades despite our constant huffing and puffing.

And to those who point to South Africa as an example of sanctions having an eventual positive effect, I say that was a case where the entire world was on our side. If we revoke MFN with China, we will most certainly be alone. For there is no evidence that other countries have the slightest intention of following in supporting an isolationist policy toward China.

The most telling example for me is to be found in the apprehension surrounding the transfer of Hong Kong back to mainland China. Opponents of continuing our present relationship with the Chinese cite concerns for the future of Hong Kong as justification for their position. Yet across the spectrum of opinion and political philosophy in Hong Kong, including Christopher Patten, the current and last Governor General of Hong Kong, there is unwavering support for us to stay the course and not disrupt the Chinese relationship with MFN revocation.

The advancement of economic and political freedom for the Chinese and the protection and promotion of world peace will be better served by the U.S. not isolating ourselves. We should refrain from playing politics at home with a failed strategy

from the past, and instead we should become a leader in the family of nations with sane policies for the next century.

Mr. RAMSTAD. Thank you very much for your testimony.

Finally on this panel, the gentleman from Arizona, Mr. Salmon.

STATEMENT OF HON. MATT SALMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. SALMON. Thank you, Mr. Chairman. I appreciate the opportunity to come and speak before the Subcommittee.

Frankly, from my vantage point, it would be a lot easier to stand up and say what rotten guys they are in China, because they are. The leaders in China—I think some of them truly have no good use for the people they govern. Frankly, it would be a lot easier for me to go back home to my district and thump my chest and say I poked those bad guys in the nose for you by revoking MFN. That would be the end of my explanation, and I could go on my merry way and campaign on a different issue.

I am not going to try to convince anybody here that all is well in China. The fact is, things are bad. They are really bad. Religious persecution is real. The human rights situation is dismal, and there are legitimate concerns about how China will handle the return of Hong Kong.

But as a former Christian missionary to the region, I believe that if we close the door to trade relations, we close the door to all relations.

If I thought for 1 second that revoking most-favored-nation trading status for China would improve the human rights situation in China, I would vote for revoking it in a New York minute.

Human rights are more important than trade, and that is an unequivocal position that I think we all agree on. But the fact is, in my heart, I don't believe that revocation will improve conditions in the PRC. In fact, I believe it will only serve to make matters worse.

For 2 years in the late seventies, I served in Taiwan as a missionary for the Church of Jesus Christ of Latter-day Saints. At that time, Taiwan was under martial law and the government was autocratic, as it is in China today. Speaking out against the government in any way simply was not tolerated; if you did, you disappeared.

But that was also the time when things began to open up economically in Taiwan. Ultimately, economic reforms spurred political reforms, and in 1996 the world witnessed the inauguration of the first directly elected president of Taiwan. Real reform: That hasn't happened in that region of the world in 5,000 years.

The Chinese approach conflict differently than we do in the West. We tend to be very arrogant, think that we have all the answers and that since we think a certain way, everybody else must think the same way we do. But we have got to understand that the leaders in Beijing are far more fearful of losing face internationally and at home than they are of losing MFN. They do not want the United States meddling in what they consider to be their internal affairs. As the only world superpower left and, hopefully, the moral

compass for this plan, we believe that we have to say something about human rights, and we are right to do so.

But what do we think would be the ultimate outcome of revoking MFN? Once we revoke MFN, then what? I believe that the United States and China would ultimately end up in a period of cold war, as we did with the Soviet Union. MFN is our trump card; if we play it, how can we hope to influence China from the outside?

In addition, if the United States were no longer at the table, which nations would express our values and concerns about issues such as human rights? Is France going to stand up and decry human rights violations or religious persecution? Maybe Japan? Or one of the other countries like Germany? Well, they haven't yet.

While we must never let China's leaders forget that the world is watching and that all will not be right until they demonstrate acceptance of the most basic human rights, we also should not walk away from the table. If we turn our back on China by denying her MFN, we lose our ability to influence China's development.

Just ask yourself this question: What relationship have you ever had that you have been able to improve upon by walking away, by not talking and not engaging?

Change will come to China, as it has to other oppressive nations. Our presence there is, in fact, already providing opportunities to the Chinese people that would have been unimaginable just a few years ago.

It is time that we in Congress come up with innovative approaches to deal with the many problems presented by China. And it is time for President Bill Clinton to get serious about our relationship with the country that most likely will be the world's next great superpower.

There are ways the United States can exert pressure and influence on China that would not bring an end to our relationship. For example, I have advocated the establishment of a Commission on Security and Cooperation in Asia, which would be modeled on the Helsinki Commission that has had great success in Europe.

The United States could develop a prisoner information registry in order to ascertain the dissident population currently in prison during meetings with Chinese officials.

In addition, it is vital that we expand engagement between the U.S. Congress and the People's Congress through an interparliamentary exchange. Such meetings would increase understanding between two very different cultures as well as to provide access to our legislative process and legal system at a time when rule of law appears to be gaining greater importance in China.

My dad taught me an important lesson when I was young. When I was playing baseball he said, Always keep your eye on the ball. When it comes to our policies with China, Congress needs to heed that advice.

We often confuse tactics with objectives. We need to keep our eye on the true objectives: improving human rights conditions, curtailing sales of dangerous weapons to countries like Iran and Pakistan, enhancing national security for the United States in Asia, protecting intellectual property, a smooth merging of the free and democratic government of Hong Kong with the PRC, and improving relations between Taiwan and the mainland.

The objective is not—I repeat, is not—revocation of MFN, which is merely the same trading status that we maintain with almost every other country in the world.

As the writer Victor Hugo said, "There is one thing stronger than all armies in the world, and that is an idea whose time has come." That is particularly apt when thinking of China. Believe me, the will of her people is far stronger than any browbeating or bullying that we can do from outside China, and it is going to happen.

It is clear that our western ideals are making their way into this vast nation. As we see changes in an outmoded and oppressive system, we have got to be a little more patient while also being vigilant in our demands for improvement. Freedom and democracy has come to Taiwan. I believe that 1 day it will come to China, too.

Thank you.

[The prepared statement follows:]

MATT SALMON
MEMBER OF CONGRESS
FIRST DISTRICT, ARIZONA

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REPUBLICAN EDUCATION TASK FORCE

Statement Before the Committee on Ways and Means Subcommittee on Trade

June 17, 1997

Representative Matt Salmon

I'm not going to try to convince you that all is well with China. The fact is, things *are bad*--religious persecution is real, the human rights situation is dismal, and there are legitimate concerns about how China will handle the return of Hong Kong. But as a former Christian missionary in the region, I believe that if we close the door to trade relations, we close the door to all relations. If I thought for one second that revoking Most Favored Nation trading status for China would improve the human rights situation in China, I would oppose MFN renewal. Human rights are more important than trade. But the fact is, in my heart I don't believe that revocation will improve conditions in the PRC; in fact, I feel it will serve only to make matters worse.

For two years in the late seventies, I served in Taiwan as a missionary for the Church of Jesus Christ of Latter-day Saints. At that time the country was under martial law and the government was autocratic, as it is in China today. Speaking out against the government in any way simply was not tolerated--if you did, you disappeared. But that was also the time when things began to open up economically in Taiwan. Ultimately, economic reforms spurred political reforms, and in 1996, the world witnessed the inauguration of the first directly elected President of Taiwan.

The Chinese people approach conflict differently than we do in the West. The leaders in Beijing are more fearful of losing face internationally and at home

than they are with the prospect of losing MFN. They do not want the U.S. meddling in what they consider to be their internal affairs. Though we are right to bring attention to the deplorable state of human rights in China. But what do we think the ultimate outcome of revoking MFN would be? I believe the U.S. and China would enter a period of Cold War. MFN is our trump card; if we play it, how can we hope to influence China from the outside? In addition, if the U.S. were no longer at the table, which nations would express our values and concerns, about such things as human rights, nuclear proliferation, and intellectual property violations? Do we think France would take up the cause of human rights? Perhaps Germany? Well they certainly haven't raised these issues thus far.

While we must never let China's leaders forget that the world is watching, that all will not be right until they demonstrate their acceptance of the most basic human rights, neither should we walk away from the table. If we turn our back on China by denying her MFN, we will lose our ability to influence China's development. Just ask yourself this question: What relationship have you ever had in your life that you have been able to improve by walking away and not talking, and not engaging? Change *will* come to China as it has to other oppressive nations--in fact, our presence there is *already* providing opportunities for the Chinese people that would have been unimaginable just a few years ago.

It is time that we in Congress come up with innovative approaches to deal with the many problems that China presents. And it is time for President Bill Clinton to get serious about relations with the a country that will likely be the world's next great superpower. There are ways the U.S. can exert pressure and influence on China that would not bring an end to our relationship. For example, I have advocated the establishment of a Commission on Security and Cooperation in Asia, which would be modeled on the Helsinki Commission that has had great success in Europe. The U.S. could develop a Prisoner Information Registry, in order to ascertain the dissident population currently imprisoned during meetings with Chinese officials. In addition, it is vital that we expand engagement between the U.S. Congress and the People's Congress through an interparliamentary exchange. Such meetings would serve to increase understanding between two very different cultures, as well as to provide Chinese legislators with access to our legislative process and legal system at a time when Rule of Law appears to be gaining greater importance in China.

My dad taught me an important lesson when I was young. He said that when playing baseball, always keep your eye on the ball. When it comes to our policies towards China, Congress should also heed this advice. We often confuse tactics with objectives. We need to keep our eye on our true objectives--the improvement of human rights conditions, curtailing the sale of dangerous weapons to countries like Iran and Pakistan, enhanced national security for the U.S. in Asia, the continued protection of intellectual property, the smooth merger of a free and democratic government in Hong Kong with the PRC, and improved relations between Taiwan and the Mainland. The objective is *not* the revocation of MFN, which is merely the same trading status we maintain with almost every other country in the world.

As the writer Victor Hugo once said, "There is one thing stronger than all the armies in the world: and that is an idea whose time has come." This is particularly apt when thinking of China. The will of the people of China is stronger than any browbeating or bullying the U.S. attempts from the outside. It is clear that our western ideals are making their way into this vast nation. We must be patient as we seek change in an outmoded and oppressive system, while being vigilant in our demands for improvement. Freedom and democracy has come to Taiwan. I believe it will one day come to China too.

Mr. RAMSTAD. I thank the gentleman for his testimony.

The final witness on this panel is the other gentleman from Arizona, Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

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

I apologize for being late to this; we were trying to prepare for the markup on my appropriations bill tomorrow. But I very much appreciate the opportunity to testify with my colleagues, who, as you have obviously heard, are standing on both sides of this issue.

I have long had an interest in this, but I have a particular interest this year. In January I led a delegation of representatives on a fact-finding mission to Hong Kong and China to see firsthand the impact that the U.S. policy of engagement is having on the Chinese economy and the Chinese people. After visiting there, I remain more committed than ever to our policy of economic and political engagement, the cornerstone of which is the renewal of MFN status and the maintanence of normal trading relations with China.

Over the last several years, economic liberalization has generated powerful currents of democracy and freedom that have rippled throughout Asia. Certainly that has been the case in China. These changes did not occur overnight. They have been part of a long-term evolutionary process of economic growth and ever-expanding liberties.

As in other Asian nations, we should not expect China to change quickly into a flourishing, free-market democracy. But I am convinced that, if we remain steadfast in our concept of engagement,

freedom and democracy will prevail over the tyranny of oppression and the stagnation of state-run economies. We will ultimately see the same economic and political transformations in China that we have seen in countries such as Japan, Korea, and Taiwan.

There is evidence of change in China today. Two decades ago, Mr. Chairman, virtually every aspect of Chinese society was under state control. Today, well over half of the Chinese gross domestic product, GDP, is generated by private enterprise and 85 percent of the people in China now work in nonstate industries. The development of a strong, vibrant private sector, particularly in southern China, continues to weaken government control. And I think this is the best hope that we have for future political freedom.

Economic liberalization and growth in trade and economic links with the United States over the past decades have promoted freedom for the Chinese people. I think that statement is undeniable. I don't think there is anybody in the room who can deny there has been an expansion of civil liberties or personal space over the past two decades resulting from economic improvements. In my view, the policy of trying to expand political reforms in China would surely come to a dead end if we were to shrink trade and economic exchange between our countries. For that reason alone I think support of renewal of MFN status is justified. But there are a couple of other reasons I want to mention here.

In just a couple of weeks we are going to see a massive change as Hong Kong undergoes the peaceful transfer of sovereignty from Britain to China. If we in the House of Representatives were to pass a resolution of disapproval on the eve of transfer, what message would we send to the world and, most specifically, to the people of Hong Kong? That America wants to turn its back on them, break economic and political ties with that region, and abandon its citizens at the precise hour of their greatest need? I don't think that is the message we should be sending.

I also fear that passing a resolution of disapproval would result in a backlash against American goods and American values. It would be nothing less than a unilateral declaration of political and economic war, providing just cause to hardline elements in the Chinese Government who advocate more state control and less foreign influence.

The result would be that groups associated with the United States that promote Western values, like the International Republican Institute, which works to develop the rule of law and strengthen the growing village democracy movement in China, would be exiled. Missionary organizations like the Evangelical Fellowship would no longer be welcome. We would be extinguishing some of the brightest rays of hope for the Chinese people and ultimately hurt the very ones we are trying to help.

Maintaining normal trade relations with China does not mean that we do not speak frankly and firmly to the Chinese Government about issues that are important to us. There are opportunities for us to let them know our concerns about human rights. But if we disengage, if we pull back our most potent resources, how can we ever continue to carry this message forward?

One thing is very clear, Mr. Chairman: The United States has to remain a major influence in Asia. We must strengthen relations

with our allies and maintain a strong military presence in that region. We must be clear and consistent in our message to the Chinese Government. This annual debate over whether we will continue political and economic relations with China is destructive. It hampers our ability to formulate a comprehensive and effective policy toward the region, and I think it is time for it to end.

Mr. Chairman, I will close by saying that I urge renewal of the MFN status. History has shown economic growth to be an effective catalyst of political change. The principles of freedom and individual liberty embodied in economic liberalization will prevail, but only if we have the political courage to make the right choices, to renew MFN status and to let that economic liberalization flourish in the future.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Jim Kolbe, a Representative in Congress from the State of Arizona

Thank you for the opportunity to testify today. Mr. Chairman, in January I led a delegation of representatives on a fact-finding mission to Hong Kong and China to see first-hand the impact the U.S. policy of engagement is having on the Chinese economy and the Chinese people. After visiting there, I remain more committed than ever to our policy of economic and political engagement—the cornerstone of which is renewal of MFN status and maintaining normal trading relations with China.

The changes we witnessed in China reflect many of the changes we have seen grip other Asian nations. Over the past decade, economic liberalization has generated powerful currents of democracy and freedom that have rippled throughout Asia. These currents have reshaped the socioeconomic landscape of the region.

Economic growth, driven by U.S. policies of the free markets, free trade and peaceful dialogue among nations, has allowed countries like Japan, Korea, and Taiwan to emerge as prosperous industrialized nations. As their economies grew, so did the demand for individual freedom and liberty. Today, these countries have developed into true democracies characterized by political pluralism, functioning independent parties, and greater respect for the rights of the individual.

Now these changes did not occur overnight. They were part of a long-term, evolutionary process of economic growth and ever expanding individual liberties. I think we are seeing the same forces of change at work in China. But, just as in other Asian nations, we cannot, and should not, expect a nation like China to fundamentally change into a flourishing free-market democracy overnight.

But I am convinced that if we remain steadfast in our policy of engagement, with confidence that American values of freedom and democracy will ultimately prevail over the tyranny of repression and the economic stagnation that accompany state controlled economies, we will ultimately see the same economic and political transformation in China that we have seen in nations such as Japan, Korea and Taiwan.

Even now there is evidence of change. Two decades ago, virtually every aspect of Chinese society was under state control. Today, over half of China's output is generated by private enterprise. The development of a strong, vibrant, private sector—particularly in Southern China—continues to weaken centralized control. This, I think, continues to represent the best hope for political freedom to spring full-blown in China.

Economic liberalization and growth of trade and economic links with the United States over the past two decades have promoted freedom for the Chinese people. That statement is undeniable. By having employment opportunities in non-state enterprises, millions of Chinese have obtained the basic freedom to select their own employment and to change jobs when they are dissatisfied with working conditions or wages. This environment is the direct result of our policy engagement.

I do not think anyone in this room can deny that there has been an expansion of civil liberties or "personal space" over the past two decades resulting from economic improvements. In my view, a policy of trying to expand political reforms in China would surely be a dead end if we were to shrink trade and economic exchange between our two countries. For that reason alone, I support renewal of MFN status.

But there are other reasons. In just a few weeks the world will watch as Hong Kong undergoes the peaceful transfer of sovereignty from Britain to China. If we

pass the resolution of disapproval in the House of Representatives on the very eve of the transfer, what message will this send to the world and the people of Hong Kong? That America wants to turn its back on them, break economic and political ties with that region, and abandon its citizens at the precise hour of their greatest need. I do not think that this is what the United States stands for.

I also fear that passing the resolution of disapproval in the House will result in a backlash against American goods and American values. It would be nothing less than a unilateral declaration of political and economic war, providing just cause to hard-line elements in the Chinese Government who advocates more state control and less foreign influence.

I fear the result will be groups associated with the United States who promote western values like the International Republican Institute, which work to develop the rule of law in China and strengthen the nascent village democracy movement, would be exiled. Missionary organizations, like the Evangelical Fellowship, would no longer be welcome. We would be extinguishing some of the brightest rays of hope to the Chinese people, ultimately hurting the very ones we are trying to help.

Now maintaining normal trade relations with China does not mean that we don't speak frankly and firmly to the Chinese Government about issues and values important to us. There are opportunities where we can and should let our concerns about human rights, trade, and nuclear proliferation be known. But if we disengage, if we pull back our most potent resources, how can we ever continue to carry this message forward?

I certainly think that there is more that we can do. For example, I favor bringing China into the World Trade Organization on commercially viable terms. I think doing so would force difficult domestic economic reform on Chinese leaders while providing the United States with a strong multilateral vehicle for dealing with issues such as market access in China.

I also favor accelerating and funding efforts to work with the Chinese on a number of issues, ranging from the promotion of the rule of law to encouraging and supporting the village election process. In fact, I am currently working with Representatives Porter and Dreier to examine just such an approach.

But one thing is clear. The United States must remain a major influence in Asia. We must strengthen our relations with our allies and maintain a strong military presence in the region. And we must be clear and consistent in our message to the Chinese Government. This annual debate over whether we will continue our political and economic relations with China is nothing but destructive. It hampers our ability to formulate a comprehensive and effective policy toward the region. And I think it is time for it to end.

Mr. Chairman, I urge renewal of MFN status. History has shown economic growth to be an effective catalyst of political change. The principles of freedom and individual liberty embodied in economic liberalization will prevail—but only if we have the political courage to make the right choices, renew MFN status, and let them flourish.

Thank you.

Mr. RAMSTAD [presiding]. I thank the gentleman for his testimony and for his leadership on this and other trade issues as well as his outstanding service on the Speaker's task force on China.

Additionally, I thank all the members of this panel for their very thoughtful, very articulate, very compelling testimony. You all did an excellent job, and I only wish more of our colleagues on the Subcommittee could have been here today. But I can assure you that all the statements will be entered into the record and—well, I can't assure you that they will all be read, but your points were well made.

Next panel, please. The next panel will consist of Gary Bauer, president of the Family Research Council; John Carr, director of the social development and world peace department for the United States Catholic Conference; Rev. Daniel Su, assistant to the president of Chinese Outreach Ministries; and Dr. Edvard Torjesen, director of the Evergreen Family Friendship Service.

Reverend Su and Dr. Torjesen will be formally introduced by Representative Pitts of Pennsylvania, who will be joining the panel for this part of the hearing. Also on this panel is Joy Hilley, executive director for Children of the World, an agency which provides American families the opportunity to adopt children from China.

I appreciate all of you being here today and would now like to call upon Mr. Bauer, president of the Family Research Council, for your testimony.

STATEMENT OF GARY L. BAUER, PRESIDENT, FAMILY RESEARCH COUNCIL

Mr. BAUER. Thank you, Mr. Chairman. With your permission, I would like to submit my statement for the record and make some summary remarks.

Mr. Chairman, over the last few months, I have taken a hard look at the MFN issue, as many have. And I must say that I don't see how a reasonable man using common sense can come up with any argument in favor of continuing the policy of the last 17 years.

If we again take a look at the issue of religious persecution, I think the evidence is overwhelming that persecution of believers in China has become much worse in recent years, particularly since President Clinton delinked human rights from our trade policy a few years ago.

Just in recent weeks, we have met a number of people who have returned from China and who have told us stories about priests and evangelical pastors being beaten, tortured, and imprisoned—all for preaching the gospel. By some estimates, as many as 100,000 Chinese citizens are subjected to torture each year.

If you go beyond religious liberty and just look at human rights in general, in its latest report our own State Department said that there was not a dissident in China—a single active dissident in China—who had not been imprisoned, killed, or exiled. An extraordinary statement.

By the way, I saw just this morning or yesterday that the latest State Department report on China has been conveniently delayed until you and your colleagues have a chance to vote on the issue. I suspect that that delay is an indication that the next report from our State Department will be as scathing as the last one was in its indictment of China.

I listened with interest a few moments ago to a panel of your colleagues, Mr. Chairman, who on balance gave many reasons in favor of MFN. I was shocked not to hear any of them raise the issue of the national security interests of the United States. Indeed, it is hard for a day to go by, if you read our major newspapers, without reading a story about what has happened as a result of trade with China. A recent front-page New York Times story indicated that Silicon Graphics, a computer company, had sold something like 49 supercomputers to the Chinese and, lo and behold, in spite of denials by both the Clinton administration and the Chinese Government, the evidence is now building that these computers are being used by the Chinese military to make their missiles lighter, and make it easier to target the west coast of the United States.

I also listened with interest as a number of your colleagues suggested that they were politically courageous. And I suspect they

were making that argument because they have looked at research data, as we all have, showing that 67 percent of the American people believe that human rights ought to be at the center of our policy with China. Not trade or some vague promises of what trade will bring, but human rights ought to be at the center of our China policy. The American people were right a number of years ago when it came to South Africa. They are right today in believing that American values ought to be at the center of what America does in foreign policy.

Finally, Mr. Chairman, I believe it was 8 years ago that we all sat in our homes and watched on television as Chinese students bravely stood in front of tanks. I know that I will not forget that; I hope the Members of this Congress will not forget it. I will never forget the fact that those students, while they marched in Tiananmen Square, waved copies of our Declaration of Independence, built papier mache models of our Statue of Liberty. It was American values that they were standing up for. It seems something has gone terribly wrong in America when, in 1997, Chinese students have more courage than the foreign policy leaders of Washington, DC, to defend American values.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Gary L. Bauer, President, Family Research Council

Mr. Chairman, members of the subcommittee, ladies and gentlemen: my name is Gary L. Bauer. I am the President of Family Research Council, a private education organization serving more than 300,000 families. I served as President Reagan's Domestic Policy Adviser and as Undersecretary of Education in the Reagan administration.

I appear before your subcommittee today to testify against extending "Most Favored Nation" trade status to the People's Republic of China. I believe this course is consistent with America's honor and America's interest. I also believe that denial of MFN status to China's rulers will ultimately bring improvement in the deplorable conditions suffered by the people of China.

Let me be clear. I do not advocate an end to trade or diplomatic relations with China, nor do I suggest that we impose an economic embargo on China. By revoking MFN, we will merely be telling the Chinese rulers that they stand to face tariffs which are comparable to those that Americans currently face in seeking to enter China's markets.

China's markets have been largely closed to American goods. Despite the furious lobbying of Congress by various business interests, the highly touted Chinese market has proved to be a mirage—steadily receding toward the horizon of a promise never quite fulfilled.

As a result, China buys from us barely two percent of all our exports—two percent! America sells more to Belgium than to China.

There is the most obvious point of all staring out from these figures: If China is exporting to America four times more than it imports from America, it wields in effect one-quarter of the retaliatory power we possess. Depending on the American market for a large portion of its total exports, China has far more to fear from a suspension of MFN than America has—as indeed China's own frenzied public relations campaign in Washington today attests.

Even back in 1990 and 1991, faced with a loss of MFN after the massacre of 700 or more students at Tiananmen Square, Beijing was clearly afraid and responded accordingly: China released some 800 political prisoners (most only to be promptly re-arrested after MFN was assured), announced a large contract with Boeing, and promised to ban exports of goods produced by slave labor, end illegal textile shipments, accelerate U.S. imports, close down all illegal factories dealing in copyright and software theft, and open a nuclear reactor that it was building in Algeria to international inspection.

All this occurred only when, briefly in the summers of 1990 and 1991, it looked as if Congress might really act. China was faced not just with condemnation or blus-

ter from Washington, but with a real prospect of losing its cherished MFN privileges with its greatest export market.

America, in other words, stands before China in the summer of 1997 for the most part as customer. In most free economic relationships, it is the customer who has the power.

Our dealings with China have been highly one-sided. I believe they have been a bad deal for Americans, especially American workers and taxpayers. But I readily admit that I would not be appearing before this subcommittee today if this were only a matter of a disadvantageous trade relationship.

I have not testified against Japan's trade status, despite the unfair trading practices I believe the Japanese pursue against American exports. The conduct of China's rulers calls upon all Americans to judge communist China differently from the way in which we judge democratic and even many other authoritarian countries.

China's human rights violations shock—or at least should shock—the conscience of the world. Our State Department reported last January that harassment, imprisonment, torture and even execution are the common lot of dissidents in China. The report stated that government repression has been so fierce that all dissidents have been jailed, exiled or killed. All dissidents. The report is filled with words like "cattle prods," "thumb cuffs," "shackles," and "electrodes."

China's religious believers fare little better. Some 50 million Christians—both Catholic and Protestant—live in fear of government persecution. Many independent observers—like human rights lawyer Nina Shea and Canadian scholar Paul Marshall—report that China's religious persecution has been intensifying since President Clinton delinked trade and human rights in 1994. Christian prayer services are routinely disrupted by the Chinese Public Security Bureau's baton-wielding police. Pastors and priests are imprisoned. Some clergy have not been heard from for months.

The Beijing regime clearly views Christians as the enemy of totalitarian communism. Its leadership, determined not to repeat the "mistakes" of the Soviet empire, speaks disparagingly of the "Polish disease." The religious resistance to communism galvanized by Pope John Paul II is much on the mind of China's leaders. Paul Marshall, in Their Blood Cries Out, quotes China's state controlled press warning that, if China does not want to experience the same fate as the Soviet empire, it must "strangle the baby in the manger." In other words, they view Jesus Christ and, by extension, Christianity as the greatest threat to their continued control over the Chinese people.

Christians are not the only ones persecuted in China. Buddhists, particularly those in Tibet, and Muslims in the Northwest are experiencing a Chinese version of "ethnic cleansing."

China's ruthless one-child policy has resulted in forced abortions and compulsory sterilizations on a horrific scale. A wide range of religious and political leaders has called this abortion policy "abhorrent." The policy has also led to female infanticide. The BBC recently documented the deliberate starvation of orphaned girl babies in a film called The Dying Rooms.

China's rulers do not threaten or bully their own people alone. When Denmark raised the issue of human rights before a UN conference in Geneva, China's rulers raged against that valiant little country. Denmark, Beijing snarled, would have its neck broken "like a small bird."

In 1996, when the people of Taiwan dared hold the first free elections in 5,000 years of Chinese history, China fired missiles over their heads. The freely elected legislature of Hong Kong will be ousted by a puppet parliament hand-picked by Beijing when that colony is handed over at midnight on July 1st.

Chinese rulers have treated pariah states like Iran and Iraq as their most favored nation trading partners. Their trade with these terrorist regimes has been in weapons of mass destruction, including poison gas and offensive missiles. Americans have been killed by these weapons. Last week, China's missile trade with Belarus—a trade clearly violating international arms control agreements—was disclosed.

The New York Times reported on June 10 that China may be using 46 supercomputers purchased from America to build nuclear missiles capable of striking our shores. U.S. Marines, like my own father, who served in the South Pacific in World War II, all heard the bitter complaint of America's warriors: "We sold the Japanese New York City's Fifth Avenue 'el' and now they're shooting it back at us." The steel we blithely sold to Japan in the 1930s ultimately cost American lives. Must not we ask whether history may be repeating itself in the sale of high-tech weapon systems to China today?

U.S. high-tech trade with China is being conducted with a short-sightedness that exceeds an similar error we've made in the past. China is unquestionably engaging in the largest scale military buildup of any great power. Beijing uses the more than

$40 billion in hard currency it nets from trade with the United States to finance its military buildup. Many of China's "businesses" are in fact wholly-owned subsidiaries of the People's Liberation Army.

Chinese rulers routinely demand—before they will do business with our corporations—that U.S. manufacturers give them high-technology transfers, some of which are known to be diverted to weapons development. A recent deal by McDonnell-Douglas for machine tools, which the Chinese diverted to missile manufacturing, is a case in point.

Against whom will all these weapons be used? Official Chinese journals, according to our own Defense Week, anticipate what they call "a small war" with America by the year 2010 over the issue of Taiwan. A Chinese official has issued a veiled threat to the effect that the United States would not come to the aid of Taiwan if it meant the destruction of Los Angeles.

The students in Tiananmen Square did not make papier-mache models of Chairman Mao but of our Statue of Liberty. They didn't quote Marx but Jefferson. Our Declaration of Independence speaks to a universal longing in the human soul for freedom and dignity. The United States of America should always ensure that the tyrants of this world will sleep uneasily in the knowledge that their people know the words of our Declaration of Independence and that they, and we, still believe them.

Mr. Chairman, members of the subcommittee, I urge you to revoke China's MFN trade privileges. I do not believe we are the "moneybag democracy" Beijing has contemptuously called us. I believe we can act to defend our people, our honor, and our interests. I believe that the 67 percent of Americans who place a higher priority on human rights in China than on extending trade benefits (according to a recent poll conducted for The Wall Street Journal and NBC) want us to uphold a firmly rooted foreign policy. Ronald Reagan advocated a foreign policy "based upon our deep belief in the rights of man, the rule of law and guidance by the hand of God."

The Chinese people, like freedom-loving people everywhere, are looking to America for signs of hope. Let us send a clear message that we stand with those people and not their oppressors, that we support democracy in the world and will not underwrite tyranny. Far from ending all future dealings with China, the withdrawal of MFN could be one of the best investments America ever makes in China—an investment in freedom.

Thank you.

Chairman CRANE [presiding]. Thank you.

Mr. Carr, please.

STATEMENT OF JOHN L. CARR, DIRECTOR, DEPARTMENT OF SOCIAL DEVELOPMENT AND WORLD PEACE, U.S. CATHOLIC CONFERENCE

Mr. CARR. My name is John Carr. I serve the U.S. Catholic bishops as director of their department of social development and world peace. I appreciate the opportunity to testify today on their behalf.

I come before this Subcommittee to urge a strong House vote against renewing MFN to China as the best available means to send a clear message to the Clinton administration and the Chinese Government that the United States will neither reward nor ignore pervasive violations of human rights, religious liberty, and workers' rights.

The bishops are not newcomers to the MFN debate. They lead a community of faith, not of political or economic growth. We join with others from across the political spectrum to insist that the United States' China policy must more clearly reflect fundamental moral values.

The Catholic bishops believe that the House vote on MFN for China is not really about China's trade status; it is a test of Amer-

ican principles and priorities. We believe the ties of common humanity are deeper and stronger than those of trade and commerce. By voting not to renew MFN for China, the House can stand in solidarity with those persecuted for their faith or political courage, affirm the rights of workers, and defend married couples from the inhumanity of coercive abortion policies.

Hard experience has shown that a free society cannot exist without freedom of conscience. Freedom for markets without freedom of worship is not really freedom at all.

Religious persecution in China is serious and growing. As a result of recent laws, regulations, and practices, many believers in China—underground Catholics, Tibetan Buddhists, Protestant "house churches," and others—are denied the right to practice their faith without governmental interference, harassment, or persecution.

The bishops I represent know that if they served in China, they could face harassment and possible imprisonment simply for teaching Catholic doctrine and voicing their fidelity to the Pope.

Our church supports reconciliation and dialog between the United States and China and among the Chinese people and Catholics, but these must reflect a fundamental respect for human life, dignity, and rights.

America must recover its voice and its principles on fundamental human rights. The United States must reorder its priorities in China, insisting that protecting the rights of believers, workers, and dissidents is at least as important as combating the piracy of CDs and videos.

Our conference is sometimes dubious about trade sanctions, but to punish Burma, Cuba, and Iraq at a time when we are seeking to reward China is an exercise in hypocrisy and an indication that the U.S. policy targets weak countries and ignores the abuses of more powerful nations.

The Chinese have apparently concluded that there is no significant price for political and religious repression. As business has flourished, the repression of believers and democratic reformers has grown even more bold. We must be clear that violations of fundamental human rights have a price.

When the USCC's position on this issue was recently reported, I received a call from a representative of a major corporation with trade ties to China who suggested that MFN and a policy of engagement was the best path to protect human rights and religious liberty. I asked him to share any evidence—one letter, one speech, one communication of any kind—which would demonstrate that their company had used its remarkable access to China to encourage greater respect for human rights or religious liberty in any way. I was not asking for some grand gesture, just some evidence that they had ever raised with the Chinese their feeling that putting people in jail for their religion or political convictions was wrong, or at least counterproductive to ties to the United States. There was a long pause and then he said, "I cannot respond to your question but I will try to find someone who can." I am still waiting.

If the House votes to deny MFN renewal for China, one of the best outcomes would be that many of those currently trying to defend China's record on human rights and religious liberty would

spend less time lobbying Congress to protect their economic interests and more time explaining to the Chinese that U.S. concerns about human rights and religious liberty will simply not go away.

Current policies have failed to bring the progress their advocates promise. Using this admittedly imperfect vehicle, the House can and should send a strong message to the Clinton administration, the Chinese authorities, and to those imprisoned in China for their faith or politics that the United States will no longer ignore religious persecution, violations of human and workers' rights, and coercive abortion policies. We urge you to send that message.

The earlier panel agreed on very little, other than we need a new policy toward China. But the road to a new policy also rejects business as usual and looking the other way. That is what the House vote on MFN is all about.

Thank you.

[The prepared statement and attachment follow:]

Statement of John L. Carr, Director, Department of Social Development and World Peace, U.S. Catholic Conference

My name is John Carr. I serve the U.S. Catholic bishops as Director of their Department of Social Development and World Peace. I am testifying today on behalf of the Bishops' Conference, in particular their International Policy Committee which only last week reaffirmed continuing opposition to renewing MFN for China.

I come before this committee today to urge a strong House vote against renewing MFN to China as the best available means to send a clear message to the Clinton Administration and the Chinese Government that the U.S. will not reward or ignore pervasive violations of fundamental norms on human rights, religious liberty and workers' rights.

The U.S. Catholic Bishops lead a community of faith, not a political or economic interest group. The Bishops are not newcomers to the MFN debate. We join with others from across the political spectrum to insist that United States-China policy must more clearly reflect fundamental moral principles. In the opinion of the Bishops, the House vote on MFN for China is not really about China's trade status; it is a test of American principles and priorities. We believe there are ties of common humanity that are deeper and stronger than those of trade and commerce. By voting not to renew MFN for China, the House can stand in solidarity with those persecuted for their faith or their political courage, affirm the rights of workers to labor freely, stand against profiteering from slave labor, and defend married couples from the inhumanity of coercive sterilization and abortion policies.

In urging the Congress not to renew MFN for China, the U.S. Bishops insist

that religious liberty is a foundation of our freedom. Hard experience has shown that a free society cannot exist without freedom of conscience. Freedom for markets without freedom of worship is not really freedom at all. I attach to my testimony a Holy Week statement of the USCC on religious liberty. Despite the hopes of the Administration and others, religious persecution in China is serious and apparently growing. As a result of recent laws, regulations and practices, many believers in China -- underground Catholics, Tibetan Buddhists, Protestant "House churches" and others -- are denied their right to practice their faith without government interference, harassment or persecution. The Bishops I represent know that if they served in China they could face harassment and possible imprisonment simply for teaching Catholic doctrine and voicing their fidelity to the Pope.

Our Church seeks a constructive and positive relationship with China and its people. It also supports reconciliation and dialogue between the United States and China and among the Chinese people and Chinese Catholics. But these vital tasks must reflect fundamental respect for human life, dignity and rights.

America must recover its voice and principles on fundamental human rights. The U.S. must reorder its priorities in China policy insisting that protecting the rights of believers, workers and dissidents is at least as important as combating the piracy of CDs and videos. To ignore the performance and practices of the Chinese government in these areas not only harms the Chinese people, but is a direct violation of values long held by the American people. Our Conference is sometimes dubious about trade sanctions, but to punish Burma, Cuba, Vietnam

and Iraq at a time when we are seeking to reward China is an exercise in hypocrisy and an indication that U.S. policy targets weak countries and ignores the abuses of more powerful nations.

The Chinese have apparently concluded that there is no significant price for political and religious repression. As business has flourished, the repression of believers and democratic reformers has grown ever more bold. On nearly every front, Chinese policy has worsened, because the United States has led the Chinese government to believe that all we Americans really care about is profits. We must be clear that violations of fundamental human rights have a price.

When the USCC's position on this issue was recently reported, I received a call from a representative of a major corporation with close ties to China, suggesting that MFN and a policy of engagement was the best path to protecting human right and religious liberty. I asked him to share any evidence -- one letter, speech or communication -- which demonstrated that their company had used its remarkable access to China to encourage in any way greater respect for human rights or religious liberty. I was not asking for some grand gesture, just any evidence that they have ever tried to persuade their Chinese counterparts that putting people in jail for their religion or political convictions is wrong or at least counterproductive to strong ties with the U.S. There was a long pause and then he said, "I can't respond to your question, but I'll try to find someone who can." I'm still waiting.

One of the best outcomes of a House vote to deny MFN renewal for China would be that many of the companies and law firms currently trying to defend

China's record on human rights and religious liberty would spend less time lobbying the Congress to protect their economic interests and more time explaining to the Chinese authorities that concerns about human rights and religious liberty will not simply go away.

Current policies have failed to bring the progress their advocates promised. The House can and should send a strong message to the Clinton Administration, to the Chinese authorities and to those in prison in China for their faith or their politics that the United States will no longer ignore religious persecution, violation of human and worker rights, and coercive abortion policies. We urge you to send that message.

In the name of the Catholic Bishops of the United States, I thank you for the opportunity to offer this testimony today.

Religious Freedom Today

Statement Issued by Archbishop Theodore E. McCarrick
Archbishop of Newark and Chairman, USCC Committee on International Policy
March 31, 1997

Last week Christians throughout the world solemnly commemorated the Lord's Passion and Death, which calls attention to the suffering borne by so many of his followers today, suffering brought on precisely because of the commitment of Christians to follow the path of Jesus.

The anniversary of the assassination of Archbishop Oscar Romero of El Salvador, occurring just a few days ago, reminded us that many Christians in Latin America experienced severe repression and persecution because of their Christian commitment in faith. Hundreds if not thousands of catechists, dozens of priests and religious, and even bishops suffered the ultimate persecution, death, for their courageous witness, both at the hands of state authorities or death squads and of revolutionary terrorists.

Today, Latin America is largely free of the kind of religious persecution that cast such a pall on the region during those earlier decades, although there is still terrorism in some areas and serious denials of religious freedom in others. Here we think of Mexico and the continuing restrictions imposed on the Church in Communist Cuba. However, the horrors of disappearances and death squads are no more, and we thank God for these signs of progress as we renew our solidarity and support for the Church in Mexico and in Cuba.

The rest of the world, unfortunately, offers a more discouraging picture. In 1996, no fewer than 46 Catholic missionaries--bishops, priests, religious women and men and lay workers--were killed, and several others are missing and feared dead. The large majority of these occured in Africa, especially in Zaire, Algeria, and Burundi, and another priest in Rwanda was killed just in February. But religious persecution and denial of religious freedom in the great continent of Asia has also worsened considerably in recent years.

In early February, Philippine Bishop Benjamin de Jesus was shot outside his cathedral in Jolo, apparently by members of an extremist Islamic group. In Pakistan, there have been riots by extremists against Christian villages, with many wounded and thousands left homeless. In Burma, whole populations of minority Christian groups have reportedly been forced into "relocation camps" by the repressive regime in recent months. And in Indonesia, sporadic outbreaks of anti-Christian violence, including the burning of churches, continue to threaten an otherwise positive Christian-Muslim relationship. With the awarding of the Nobel Peace Prize last December to Bishop Carlos Ximenes Belo, the sufferings of the majority Catholics in East Timor have been brought to the attention of the whole world.

In some Asian countries, state oppression is often joined with the religious fanaticism of the dominant group, but in countries that are avowedly atheistic, such as China and Vietnam,

there is no question of inter-religious conflict; these are states that are determined to control religious expression at all costs. In China and Vietnam, Christians, both Catholic and Protestant, as well as Buddhists continue to suffer gravely for their religious beliefs and practices. All religions without exception were attacked and driven underground in China during the horror of the so-called Cultural Revolution. The invasion of Tibet in 1949 saw the destruction of literally thousands of Buddhist monasteries and centers of prayer, and the flight into exile of the Dalai Lama and great numbers of his followers.

Since that time, the government has, on the one hand, sought to maintain tight control over all expressions of religion, including those of the still small but growing numbers of Christians throughout China, and has engaged in direct persecution of those groups that refuse to register with the state, especially the so-called "underground" Catholics and the Evangelicals organized in the house church movements.

Priests and bishops not belonging to the government-approved Church have been routinely put under house arrest, some are today in prison, religious services have been curtailed and the Catholic faithful have been prevented from making pilgrimage to the Shrine of Our Lady of China in Dong-Lu. Reports have been received in just the last days of new attacks against one of the underground bishops, presumably in an effort to frighten people away from Holy Week and Easter worship.

As sorrowful as is the persecution of Christians in China, the plight of the Tibetan Buddhists could hardly be more tragic: many have been driven from their land, their monasteries pillaged, precious manuscripts destroyed, and a peaceful, contemplative way of life, admired by many throughout the world, threatened with extinction.

These are stark examples of how governments, even those which seek roles of prominence among the world's nations, may act from ignorance or fear in the desire to control even the minds of their citizens and reject the fundamental rights of people to worship God and express their faith free of state interference. At the end of last year, Pope John Paul II appealed to the Chinese authorities to grant legal status to the whole Catholic Church in that country. "Let the civil authorities of the People's Republic of China be reassured," he said in a message read in a special Mass broadcast by radio to Asia, "a disciple of Christ can live his own faith in any political order, as long as his right is respected to behave according to the dictates of his conscience and of his own faith."

Urging the Chinese government to be afraid "neither of God nor of his Church," the pope asked them, "with a sense of deference, to respect the authentic freedom which is the birthright of every man and woman and to allow believers in Christ to be able to contribute their energies and talents to the development of the nation." China, he added, "has an important role to play in the bosom of the community of nations. Catholics can lend significant support to that and they will do so with enthusiasm and dedication."

The Church seeks both respect for religious liberty for all and reconciliation among the Catholics of China. We support those who defend the rights of all believers and work to build bridges between our two societies and our communities of faith. We look forward to the day when China, and all states, will replace the manipulation and control of religious belief and practice with the respect for "freedom of thought, conscience and religion" that the world community enshrined as a fundamental right in 1948. Next year, we will commemorate the 50th anniversary of that Universal Declaration of Human Rights, which proclaimed that "Everyone has the right to freedom of thought, conscience and religion...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."

As today's followers of Christ are still called upon to trod the painful path to Calvary in so many places in the world, we join in prayer for them, asking the Lord to give them comfort and strength in the hope that the light and joy of Easter will soon be theirs in the full freedom of all God's children.

Mr. RAMSTAD [presiding]. I thank the gentleman for his testimony, and I would like to assure all the witnesses that your full statements will be entered into the record.

I would now like to call on a colleague from Pennsylvania who in his brief career here thus far has already shown a deep knowledge of this subject and a real commitment to the issue. Mr. Pitts.

STATEMENT OF HON. JOSEPH R. PITTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. PITTS. Thank you, Mr. Chairman.

Good afternoon. It is an honor for me to be with you today as you consider this very important issue of renewing MFN trade for China. Back in January, after I was sworn into my first term of office, I contacted several individuals I knew who had a lifetime commitment to China, who understood China and the Chinese culture and mentality, and who had years of service and experience in China to back their opinion on renewing MFN for China.

I am pleased that two of these gentlemen can be with you this afternoon. Rev. Daniel Su was formerly a member of a house church in China. He has spent the last several years ministering to the Chinese, speaking at workshops, and writing articles on the Chinese and Christianity. He currently serves as assistant to the president of China Outreach Ministries, an independent evangelical Christian ministry which focuses on reaching out to mainland Chinese students and their families in the United States.

Dr. Edvard Torjesen was born to missionary parents of Norwegian descent in Shanxi province in north central China, graduated from the Chefoo Schools on China's north coast in 1941, and personally witnessed the Japanese invasion and aggression against China. Sadly, Dr. Torjesen's father was killed on December 14, 1939, by a Japanese bomb attack on the small town of Hequ.

Burdened with the memory of his father's death, Dr. Torjesen returned to north China in 1948 to continue mission service. He has 40 years of missionary service with TEAM, The Evangelical Alli-

ance Mission; 4 years service with the Norwegian Government foreign service; and 5 years as executive director of a mission organization. He started Evergreen Family Friendship Service in China.

I am sure you will appreciate the wisdom of these gentlemen as they discuss their views on MFN for China.

Reverend Su will speak first, then Dr. Torjesen.

STATEMENT OF REV. DANIEL B. SU, ASSISTANT TO THE PRESIDENT, CHINA OUTREACH MINISTRIES, INC., BOWLING GREEN, OHIO

Reverend SU. Mr. Chairman, as a mainland Chinese currently living in America, I greatly appreciate the opportunity to testify here regarding China's MFN trade status. Based on my understanding of China, its culture and people, I believe that revoking China's MFN would backfire. It would be a step backward for the cause of human rights in China and religious freedom in particular. My reasons are as follows.

First and foremost, if the MFN were revoked, China's President Jiang Zemin, for his own political survival, will have little choice but to act tough in response to what would be perceived as a serious provocation from the United States, threatening China's national interests. This would then trigger rounds of retaliations and counter-retaliations between the two countries, leading to a serious deterioration in the whole Sino-U.S. relationship and creating isolation of China. This would have grave consequences difficult to reverse.

People suffer when China becomes isolated and hostile. I am a witness to that. As a child, I didn't have enough to eat or warm clothes to wear in winter. I can still recall the days when my parents had no money to buy me shoes, and many times I had to walk to school barefoot. Later when I became a Christian, I couldn't find a Bible and I had to literally copy one of the gospel books by hand. So engaging China through trade has helped relieve the suffering of the ordinary Chinese people.

Second, if China's MFN were revoked, Beijing's direct and indirect retaliation would endanger the international community and bring greater persecution of political dissidents and Christians. Forced into a corner, Beijing would be even more tempted to seek revenge by selling its nuclear technology and chemical weapons to countries hostile to the United States. If this were followed by other confrontations, there would be social unrest in China, resulting in Chinese refugees flooding to surrounding countries. We are talking about a lot of human suffering here.

Third, revoking MFN will primarily hurt the Chinese people. Ironically, the hardest hit will be those who have left China's socialist economy, hoping to thrive in the Western-style free market. If MFN is denied China, such hard-working Chinese would be hurt the most. They would then have to go back to the Beijing Government for their daily bread.

Finally, if MFN is revoked, China's loss of trade with the United States would eventually be made up by increased trade with Europe, Japan, and other countries. In the end, the United States would be isolated due to using sanctions against China. It would then also lose what leverage it currently has to address any human

rights concerns. That would be a lot of bad news for all of us who are concerned about China's human rights situation.

We have all seen positive changes from engaging China through trade. At the same time, we also deplore many cases of human rights violations. But to revoke China's MFN status as a way to improve its human rights is simply counterproductive. It is like setting your car on fire when it stalls.

I have good personal friends on both sides of the debate, and I highly commend the many human rights groups and people in the Congress who speak up for the persecuted in China. However, with complicated issues like MFN, good intentions are usually not good enough. There are many better ideas out there. And here I would just like to add one suggestion.

I believe the U.S. Government should work with American companies to promote human rights awareness and practice. They can start with their own companies and factories in China by promoting employee rights and company policies that forbid any discrimination for political, religious, or gender reasons.

The company should provide educational seminars for their employees. If adopted, I believe this approach would spread human rights values at a grassroots level and surely would have a far-reaching effect in China than many other means.

It took the courage and vision of President Nixon to break China's isolation. I hope that this Congress will continue to engage China through trade and other channels. Renewing China's MFN will contribute to a much more conducive environment for the progress of freedom and human rights. Renewing MFN is good news for the Chinese people.

Thank you for this opportunity to testify.

[The prepared statement follows. A response to "Open Letter on China's Persecution of Christians" signed by Gary Bauer, et al. as part of the MFN debate is being retained in the Committee files.]

Statement of Rev. Daniel B. Su, Assistant to the President, China Outreach Ministries, Inc., Bowling Green, Ohio

Mr. Chairman and Members of the Sub-Committee: As a Mainland Chinese currently living in America, I greatly appreciate this opportunity to testify here regarding China's MFN trade status.

Based on my understanding of China and its culture and people, I believe that revoking China's MFN will backfire; it will be a step backward for the cause of human rights in China and for religious freedom in particular. The reasons are as follows:

First and foremost, if the MFN were revoked, China's President Jiang Zemin—for his own political survival—would have little choice but act tough as commander-in-chief to what will be perceived as a serious provocation from the United States threatening China's national interests. This would then trigger rounds of retaliation and counter-retaliation between the two countries, leading to a serious deterioration in the whole Sino-US relationship and likely the isolation of China. This would have grave consequences difficult to reverse.

People suffer when China becomes isolated and hostile. I'm a witness to that. As a child, I didn't have enough to eat or warm clothes to wear. I can still recall the days when my parents had no money to buy me new shoes, and many times I had to walk to school barefoot. When later I became a Christian, I couldn't find a Bible and had to hand copy one of the Gospel books. Engaging China through trade has helped relieve the suffering of the ordinary people.

Second, if China's MFN were revoked, Beijing's direct and indirect retaliation would mean danger for the international community and greater persecution of political dissidents and Christians. Forced into a corner, Beijing would be even more tempted to seek revenge by selling its nuclear technology and chemical weapons to

countries hostile to the US. If followed by other confrontations, there would be social unrest in China, resulting in Chinese refugees flooding to surrounding countries.

Third, revoking MFN would primarily hurt the Chinese people. Ironically, the hardest hit would be those who have left China's socialist economy, hoping to thrive in the Western style free market. If the MFN were denied China, such hard working Chinese would be hurt the most; they would have to go back to the Beijing government for their daily bread.

Finally, if the MFN is revoked, China's loss of trade with the US would eventually be made up by its increased trade with Europe, Japan, and other countries. In the end, the US would be isolated in using sanctions against China. It would then also lose the leverage it currently has to address any human rights concerns. all of us who are concerned about China's human rights situation.

We have seen positive changes due to engaging China through trade. At the same time, we also deplore many cases of human rights violations. But to revoke China's MFN status as a way to improve its human rights is counter-productive; it's like setting your car on fire when it stalls.

Concerning complicated issues like MFN, good intentions are not good enough. There are many better ideas out there.

Here I just want to offer one suggestion: American companies should and are able to promote human rights awareness and practice in China. They can start with their own companies in China in the form of employee rights and company policy to forbid any forms of discrimination for political, religious, gender reasons. The companies should provide such educational seminars for their employees. If adopted, I believe this approach would spread human rights values at the grassroots level and would surely have a far reaching effect.

It took the vision and courage of President Nixon to break China's isolation. I hope this Congress will continue to engage China through trade and other channels. Renewing China's MFN will contribute to creating a much more conducive environment for the progress of freedom and human rights. That is good news for Chinese people.

Chairman CRANE [presiding]. Dr. Torjesen, have you testified yet?

STATEMENT OF EDVARD P. TORJESEN, PH.D., EXECUTIVE DIRECTOR, EVERGREEN FAMILY FRIENDSHIP SERVICE, COLORADO SPRINGS, COLORADO

Mr. TORJESEN. Thank you. I thank you for the opportunity to be here, and also for the kind introduction by Congressman Pitts. First, I want to point out that it is possible for a public benefit organization incorporated in the United States and serving in the public sphere in China to become incorporated as a wholly-owned foreign enterprise in China. And I will go on now to give you a little bit of our own understanding of the situation in China.

China is changing, yet unchanged. China has gone through some staggering changes over the last 50 years. I think, for instance, of the Cultural Revolution which Mao Zedong engineered. His ship of state ended up on the rocks; however, the peasants of yesterday's China were transformed into the farmers of today's China.

I think also of the Four Modernizations first set forth by Zhou Enlai and now in full bloom through the late Deng Xiaoping's paramount leadership. Yes, China has changed; it is still changing every day. And China is also unchanged, still building on unique cultural dynamics rooted in its 6,000-year history.

If we want to communicate with the Chinese people today, we need to do so with an understanding and recognition of how their culture works. My son and Evergreen's China administrator, Finn

Torjesen, recently wrote the following concerning what he called the China factors:

"That a country of this size and history has changed so drastically in the last 20 years is phenomenal. Many factors in Chinese culture account for this phenomenon. Any understanding of China today must include this Chinese factor. Key elements in the Chinese factors are: Unity, face and creativity. . . .

"The leadership and society consider conformity to be fundamental to unity. . . . If there is a public fight or disgruntled people begin to gather around a speaker, this would get quick attention from the security bureau. The name security bureau in Chinese is actually translated 'Public Peace Bureau.' They definitely deal with criminal activity, but their focus is to stop anything that would disrupt the unity of the nation.

"In public, China stands as one. Where China has conflicts, it deals with them privately until it can present a public unity. . . . All this negotiating is done behind the scenes until the strongest stands up and is supported by all."

But in addition to that unity factor, there are other cultural factors which we need to be aware of. John King Fairbank has pointed out many such cultural factors deeply rooted in the Chinese history, but still pertinent to the introduction and assimilation of new movements and concepts in China today. Here are two comments on these factors from my own 1993 "China Dynamics" paper.

1. China and its people have been conditioned by factors significantly impinging them from antiquity to the present. . . . Despite the diversity and span of this development . . . the Chinese people are still responding to and they continue yet today to refine and develop these dynamics that have so distinctively molded their culture since antiquity. Their society possesses a 'unified yet self-regulating character.'

2. The Chinese society is and has always been a strong autocracy. Yet, this autocracy has traditionally distinguished itself by certain significant 'pockets of autonomy' on its flanks, which—whether they are openly acknowledged or not—have always given China a certain distinctive diversity. These pockets of autonomy have included the Inner Asian people groups, the Maritime Chinese, and the several religious communities in the buildup during the Imperial Period, and later, the treaty port communities, the Overseas Chinese, and also the various independent thinkers associated with these two communities. All these communities have served as bridge communities through which new dynamics have been discreetly absorbed into the Chinese society. The Four Modernizations program is also a vehicle for such an opportunity today.

We need to enhance the opportunities for appropriate cross-cultural undertakings in China today. It would be unfortunate if Congress now modified our country's normal trade relations with China in any way that discouraged such legal and appropriate cross-cultural undertakings in China today.

I urge you to continue our country's normal trade relations with China. May God bless our own America. May God also bless China, and I thank you.

[The prepared statement follows:]

Statement of Edvard Torjesen, Ph.D., Executive Director, Evergreen Family Friendship Service, Colorado Springs, Colorado

I. MY CHINA BACKGROUND (FOR COMMITTEE INFORMATION)

I was born in Shanxi province, North Central China, in 1924, graduated from the Chefoo Schools on China's north coast in 1941, and since then I have had a pretty steady focus on China and the Chinese people.

When I was eight, I was sent home to Norway to begin my formal education in 2nd grade. However, when my parents returned four years later for home assignment, they soon agreed that China would be better for me, and in 1937 I returned with them to China. En route we learned of the Japanese invasion and aggression against China, which—as I myself was to witness with my own eyes—devastated China over the next four years, and after that all through World War II.

However, after our arrival in China, my father was able to arrange for Mother and us four children to be relocated with another Norwegian mission in South Central China. He was then able through careful and patient negotiation to secure safe conduct passes from both Nationalist commanders and the Eighth Route Army, gradually getting back up to his station at Hequ, a small town in northwestern Shanxi province at the intersection of the Yellow River and the Great Wall. Here he soon was busy helping with the security of the local people during the many military actions in the area. Then as the Japanese agression continued to the south of the Yangze, my mother in 1939 found an opportunity to get us children relocated—by way of Hong Kong—to the Chefoo Schools up on China's Yellow Sea. That summer Father also got out to visit us, and then afterwards he and Mother together returned to their station at Hequ in Shanxi province.

Their bliss, however, at being able once again to work together was short lived. On December 14 Father was killed in another Japanese dive bombing attack on that small town of Hequ. For me the news seemed to bring the world to an end, but soon God was burdening me with the same vision through which he had burdened my father—with the result that in the fall of 1948 my wife and I with our first son were able to return to North China.

VE day and VJ day were already then three years past. However, as all of you know, Mao Zedong's peasant revolution had not yet come to its climax. Consequently, on the advice of our Chinese friends we left the China Mainland in the summer of 1949. That departure, however, was not easy; for earlier that spring our second son, born in Lanzhou and only three months old, had gotten sick and died within a day. Therefore, we left China now with a double grief, for our son and also for my father—both buried in China's soil!

But I am glad I can now take you to a new step in our personal involvement with China. Through a remarkable set of circumstances in 1988 the doors were opened for my sister and brother each to visit our "home town" of Hequ. They were both informed that our father's name ("Ye Yongqing" in Chinese, meaning Leaf Eternally Green) was on Hequ County's list of "martyrs for the people." His grave had long since been leveled; however, the town leaders assured them, "You come back, and we will set up a memorial for your father." Then in 1990 during a formal meeting in the provincial governor's reception hall we were invited to come back to Shanxi, live there on a long term basis, and help with the province's needed social and economic development.

On the basis of that invitation the Evergreen Family Friendship Service was incorporated in California in 1992 as a non-profit public benefit organization. In 1993 our "registered office" was opened in Taiyuan, Shanxi's capital; and last year, in 1996, we were granted incorporation in the province as a wholly owned foreign enterprise under the name "Shanxi Evergreen Service." Stranger than ficttion? Yes, maybe; but these developments happened under God's grace—and in accordance with the applicable laws of both Shanxi and California!

Today Evergreen is involved in various programs, including the Cobbler Program for rural health care training in Shanxi province, teaching English to various professional groups, consultation on a variety of projects—such as the Yellow River water project, rural health care briefings for the Ministry of Health, lay leadership training for local churches under spiritual renewal, and the "Bob Vernon Seminars" for the Minstry of Public Security.

II. CHINA CHANGING, YET UNCHANGED! (MY ORAL TESTIMONY)

China has gone through some staggering changes over the last fifty years. I think, for instance, of the Agricultural Revolution which Mao Zedong engineered. His ship of state may have gone on the rocks; however, the peasants of yesterday's China did get transformed into the farmers of today's China! I think also of the Four Mod-

ernizations first set forth by Zhou Enlai—now in full bloom through the late Deng Xiaoping's paramount leadership.

Yes, China has changed. It is still changing—every day! And yet, China is also unchanged—still building uniquely on cultural dynamics developed through and rooted in its 6,000-year history!

If we want to communicate with the Chinese people today, we need to do so with an understanding and recognition of how their culture works.

Finn Torjesen (my son), Evergreen's China Administratror, recently wrote the following concerning what he called the Chinese factor:

"That a country of this size and history has changed so drastically in the last 20 years is phenominal. Many factors in Chinese culture account for this phenomenon. Any understanding of China today must include this Chinese factor. Key elements in the Chinese factor are: unity, face and creativity. . . .

"The leadership and society consider conformity to be fundamental to unity. . . . If there is a public fight or disgruntled people begin to gather around a speaker this would get quick attention from the security bureau. The name security bureau in Chinese is actually translated 'Public Peace Bureau.' They definitely deal with criminal activity but their focus is to stop anything that would disrupt the unity of the nation.

"In public China stands as one. Where China has conflicts, it deals with them privately until it can present a public unity. . . . All this negotiating is done behind the scenes until the strongest stands up and is supported by all."

But in addition to that unity factor, there are other cultural factors as well which we need to be aware of. John King Fairbank has pointed out many such cultural factors deeply rooted in the Chinese history, but still pertinent to the introduction and assimilation of new movements and concepts in the China of today. Here are two comments on these factors from my 1993 "China Dynamics" paper (attached hereto):

1. China and its people have been conditoned by factors significantly impinging them from antiquity to the present. . . . Despite the diversity and span of this development . . . the Chinese people are still responding to and they continue yet today to refine and develop these dynamics that have so distinctively molded their culture since antiquity. Their society possesses a "unified yet self-regulating character." (Fairbank)—p. 1

2. The Chinese society is and has always been a strong autocracy. Yet, this autocracy has traditionally distinguished itself by certain significant "pockets of autonomy" on its flanks, which—whether they are openly acknowledged or not—have always given China a certain distinctive diversity. These pockets of autonomy have included the Inner Asian people groups, the Maritime Chinese, and the several religious communities in the buildup during the Imperial Period, and later, the treaty port communities, the Overseas Chinese, and also the various independent thinkers associated with these two communities. All these groups have served as bridge communities through which new dynamics have been discreetly absorbed into the Chinese society. The Four Modernizations program is also a vehicle for such an opporunity today.—p. 20

We need to enhance the continued availability of such culturally appropriate opportunities for cross-cultural undertakings in China today. It would be unfortunate if Congress should now modify our country's normal trade relations with China in any way that would discourage such legal and appropriate cross-cultural undertakings in today's China. I urge you to continue our country's normal trade relations with China. May God bless America! May God also bless China! And I thank you!

Chairman CRANE. Thank you, Dr. Torjesen.

And now Ms. Hilley.

STATEMENT OF JOY HILLEY, EXECUTIVE DIRECTOR, CHILDREN OF THE WORLD, FAIRHOPE, ALABAMA

Ms. HILLEY. Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to speak with you today. It is a rare privilege and a genuine honor. I am executive director of Children of the World, a nonprofit international adoption agency and relief agency in Fairhope, AL. Equally important, I am the mother of a 2-year-old little girl who was born in the Hunan province of China.

At Children of the World, we support most-favored-nation status for China because the environment created by a cooperative trade relationship allows us access to China and the opportunity to improve the quality of life for hundreds of thousands of Chinese children.

We recognize that the United States will have a relationship with China. The question is whether that relationship will be one that is cooperative or one that is antagonistic.

International adoption is relatively new in China; yet, already we have seen firsthand tremendous progress and positive growth. When our representative traveled to China for the first time, she was told about orphanages in which the children had insufficient food and medicine and orphanages which were filled to capacity and unheated. Those conditions were a function of economic reality, not a function of economic policy.

Today, those conditions have been greatly improved. Most orphanages have adequate food, clothing, and medicine for the children. Many of the facilities have been renovated and a foster care plan that actually works has been implemented in many provinces.

In 1989, only 11 Chinese babies were adopted into American homes. Last year—less than a decade later—more than 3,300 Chinese children were adopted by Americans. Those 3,300 families paid more than $10 million directly to Chinese orphanages. Those fees and the thousands of dollars in aid to hospitals and orphanages donated by our agency, and those like ours, have significantly benefited children throughout China.

The positive climate created by MFN is one of the factors which helped make China more open to adoption and to American families traveling to China to adopt. If adoption agencies in the United States did not have access to China, the conditions described earlier would be a thing of the present rather than the past.

We are concerned on several levels about the current fervor over human rights abuses in China and the linking of those alleged abuses to trade issues. The first concern is that the clamor seems come from individuals and groups who have no firsthand experience in China; they often have little understanding of the historic context in which China currently exists.

Second, human rights organizations often use outdated materials and isolated events as evidence of widespread abuse or of policy formulated by the Central Committee of the Communist party. Biased and outdated reports have obvious inflammatory results, but they also have subtle devastating results. Innocent children bear the consequence as adoptions and relief efforts are delayed or discontinued.

Our third concern is that those who cite human rights abuses as the reason for denying MFN status rarely do anything to relieve those situations, nor do they offer reasonable solutions. Especially troubling is that they fail to realize that linking human rights abuses with trade status is a Western perspective and approach. This approach completely disregards Chinese history and thought, and it deeply offends the Chinese people because they do not understand it. In our experience, the two most effective methods of addressing the human rights issues of China are honest exposure and example.

We have not seen evidence that the incidence of human rights abuse has increased since the granting of MFN status to China. We suggest instead that the political environment created by increased trade has resulted in mutual trust and a more open exchange of information.

We join with others in challenging American companies which conduct business in China to bear the responsibility of bringing tangible examples of moral and ethical conduct. We have taken that responsibility seriously while developing our own policies and relationships in China. We use the freedom to work in China resulting from MFN status as an opportunity to lead by example.

Linking human rights violations to trade issues creates an environment of hostility and misunderstanding. But engagement based on cooperation and mutual trust creates the opportunity for us to work in an environment that produces growth and change. If MFN status for China is not renewed, American companies will bear the economic consequences and the U.S. Government will encounter resistance from China on other issues.

If MFN status for China is not renewed we will experience undue hardship in carrying out our mission. Our concern for continued access is based on our belief that our presence has not only enriched the lives of the children and the American families into which they have been adopted, but has actually helped save the lives of those who remain in the Chinese orphanages. We rejoice in the progress that has been made and pledge to continue our efforts in the People's Republic of China.

Thank you.

[The prepared statement follows:]

Statement of Joy Hilley, Executive Director, Children of the World, Fairhope, Alabama

China Position Paper

Children of the World is a non-profit international adoption and relief agency located in Fairhope, Alabama. We are licensed by the State of Alabama Department of Human Resources as a full-service child-placing and foster care agency. Through the Interstate Compact Agreement, we are able to place children into all fifty states.

Children of the World believes that the birthright of every child is to be in a loving and nurturing home. Children of the World seeks to restore this birthright to children who are abandoned or orphaned by uniting them with adoptive parents. For orphans who will never experience the joy of a family, Children of the World provides relief services through food, clothing, medicine, toys, and facility renovations. We have adoption and/or relief programs in the People's Republic of China, the Republic of México, the Republic of Bolivia, and India.

The debate over the United States' trade policy with China, and the particular question of the renewal of Most Favored Nation status, seems to be divided into two distinct positions. One advocates action popularly known as engagement. The other advocates linking trade status with human rights issues and is coupled with open confrontation on alleged abuses.

Whether one holds one view or the other, the question is not that of engagement versus non-engagement. The United States ***will*** have a relationship with China. The real question is whether that relationship will be one that is cooperative or one that is antagonistic.

Our organization, and many others like ours, is working cooperatively with the Chinese government to establish relationships — to build personal bridges between our culture and theirs. We are concerned on several levels about the current fervor over human rights abuses in China and the linking of those alleged abuses to trade issues. The first concern is that the clamor seems to be coming from individuals and groups who have no first-hand experience in China. They have never been to China, have no relationship with the Chinese people, have no relationship with Chinese companies, have no relationship with the Chinese government, and have no understanding of the historic context in which China currently exists.

We have seen, first-hand, tremendous progress and positive growth. When our representative traveled to China for the first time, in 1994, she carried twenty large boxes of food, medicine, and clothing to Jiangxi Province for the orphanages. They were so excited to receive those gifts. She was told at that time about orphanages which were filled to capacity, unheated, and lacked sufficient food and medicine for the children. Those conditions were a function of economic reality, not policy.

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In 1989, eleven Chinese babies were adopted into American homes. In 1994, 658 babies were adopted by Americans. Last year, more than 3,300 Chinese babies were adopted into American homes. Each family paid at least three thousand dollars to the orphanage from which their child came. With the thousands of adoptions, more than ten million dollars was given directly to orphanages in China in 1996. That ten million dollars is in addition to the fees paid to the Chinese government by adoptive families. That ten million dollars is in addition to the hundreds of thousands of dollars of medicine, medical equipment, food, clothing, and other necessities provided to Chinese orphanages and hospitals by our organization and scores of organizations like ours. The money paid to the orphanages by adoptive families has significantly and positively changed the conditions in the orphanages. Now most orphanages are clean and heated. Now most children have adequate food and are cared for by sufficient staff. Now most of the staff can be adequately trained in child care. Now most orphanage directors have been able to implement a foster care program which gives children the individualized love, stimulation and attention they need to bond and thrive. The positive climate created by MFN is one of the factors which helped make China more open to adoption and to American families traveling to China to adopt their children. If adoption agencies in the United States did not have access to China, the conditions described to us in 1994 would not be a thing of the past, but of the present.

The second major concern we have is that human rights organizations often use dated materials in their effort to proclaim the message of abuse. In January 1996, a report was issued by Human Rights Watch. That report, *Death by Default: A Policy of Fatal Neglect in China's State Orphanages*, cited incidents from the late 1980's and the early 1990's. And the report deduced that because abuse and neglect were present in one institution during those years, abuse and neglect were still present in most institutions at the time of the report. From our first-hand experience, that just is ***not*** true.

At the same time that report was issued, one of the television networks aired an exposé on the conditions of a particular mental institution in the United States. Using the same flawed analysis, one could deduce that every institutionalized mentally challenged person in the United States has experienced similar abuse and neglect. Most viewers in the United States have had some exposure to mental institutions — even if they only know the name of their state's institution. They are, therefore, able to reason that the inhumane conditions in the one filmed are the exception, not the rule. By contrast, most readers of the newspapers which printed excerpts from the Human Rights Watch report have had no exposure to orphanages in third world countries, much less in China. Therefore, they must rely on that information as being accurate and representative of the whole.

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Biased and outdated reports have obvious, inflammatory results. But, they also have subtle, devastating results. This report, published alone, served only to antagonize the Chinese government. Innocent children bore the consequences as adoptions and relief efforts were delayed.

The third concern we have is that those who cite human rights abuses as a reason for denying MFN status rarely do anything to bring relief to those situations nor do they offer potential solutions. And, they fail to realize that linking human rights abuses with trade status is a Western perspective and approach. This approach completely disregards Chinese history and thought, and it deeply offends the Chinese people because they do not understand it.

No one can nor should ignore the condition of the Chinese people. Poverty, civil rights, personal freedom, and economic self-determination are all issues which need to be addressed. Many of those issues are enmeshed in a tangle of tradition and culture for which there is no immediate or simple remedy. Real change in China will come not in a moment of epiphany or enlightenment, but through less antagonistic exposure, more comprehensive relationships, a greater awareness of our interdependence, and a demonstration that change is in China's best interest.

In our experience, the two most effective methods of addressing the human rights issues in China are exposure and example. The events at Tiananmen Square in 1989 were rightfully perceived as horrifying. Unfortunately, those events may not be the most egregious in China's thousands of years of history. Yet, their exposure to the world via television shed an undeniable beam of light in a dark and troublesome time.

Since those fateful days in 1989, many news organizations and other entities have expended great sums of money and energy to expose human rights abuses in China. We have not seen evidence that the incidence of human rights abuse has increased since the granting of MFN status to China. We suggest that the political environment created by increased trade has resulted in mutual trust and a more open exchange of information. Individuals are more willing to speak out about their experiences and observations. And, areas of China once completely closed to Westerners have recently been opened. The result is greater exposure worldwide.

We encourage exposure, but we plead that it be accurately reported and portrayed in the context of the event rather than being displayed as edicts from Beijing. We are no more comfortable with the assumption that a police officer beating a suspect in the United States is evidence of a police department policy decision than we are that a similar violation of human rights in China is evidence of a policy espoused by the Central Committee of the Communist Party.

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The more positive approach, and the one we implement at Children of the World, is one of example. We challenge American companies with offices and plants in China, as well as Americans who conduct other business in China, to bear the responsibility of being tangible examples of moral and ethical conduct. We want the new automobile plants being built in Shanghai and Guangzhou to be model workplaces, not only for the products they generate, but for the way in which workers are treated. Freedom to work in China must be coupled with responsibility.

That responsibility is one that Children of the World takes seriously. Although our office in Beijing is small compared to most American companies conducting business there, it is important. The ways in which we conduct ourselves in our license negotiations with the Chinese government are important. The policies we have developed with regard to China are important. The relationships we have built, based on honesty, integrity, and mutual trust with Chinese people, are important. We use every trip to China, every phone call to China, every fax to China, every express-delivered package to China as an opportunity to lead by example.

We encourage the renewal of Most Favored Nation status for China. Linking human rights violations to trade issues creates an environment of hostility and misunderstanding. Engagement, when based on cooperation and mutual trust, creates the opportunity for us to work in China in an environment that produces growth and change.

If MFN status for China is not renewed, American companies will bear economic consequences. As a non-trade and a non-profit business, our concern for continued access to China is not based on economics. If MFN status for China is not renewed, the United States government will experience resistance on other issues from China. As a non-government business, our concern for continued access to China is not based on foreign policy debates. If MFN status for China is not renewed, non-profit relief organizations will experience undue hardships in carrying out their missions. As a non-profit adoption and relief organization, our concern for continued access to China is based on our belief that our presence in China has not only enriched the lives of the children who have been adopted and the American families into which they were adopted, but has actually helped save the lives of those who remain in the orphanages. We rejoice in the progress that has been made and pledge to continue our adoption and relief efforts in the People's Republic of China.

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Chairman CRANE. I have a question for you, Gary, about that one-child policy, and maybe anybody on the panel who understands this can explain it to me. Because I was told that it is not the offi-

cial Government policy of China to force abortion beyond one child but, rather, that if you have more than one child, you can lose your welfare benefits.

Mr. BAUER. Mr. Chairman, all I can tell you is that we have talked to people who have been victims of that policy. We have talked to people who have literally had to pay the Government a certain amount of money to buy themselves out of the policy.

I noted with interest a few weeks ago the announcement by some U.N. body that China has the highest female suicide rate of any nation in the world. In fact, it is the only nation in the world that has a higher female than male suicide rate. I think the evidence is fairly strong that, at least in part, that is due to both the forced sterilization policy and the one-child policy, which I think is reprehensible.

Chairman CRANE. Well, my point—is that forced by the national government, that sterilization? I heard, for example, that parents would consider aborting a female child in hopes of getting a male child, if they could only have one, so they could have a potential breadwinner in their twilight years. And that maybe there were excesses at the local level, too, that people at the local government level actually were mandating it.

Mr. BAUER. Right. Up until now, I have not had anybody question it. In fact, even the First Lady, who is known for her support of so-called abortion rights, condemned China's policy on her trip there some months ago, I believe. So from everything I have seen, it is a policy that is in operation in a good part of the country, particularly in the rural areas.

Ms. HILLEY. Mr. Chairman, if I may speak to that issue—my understanding is that the policy of China is that there should be one child per family and that policy has been relaxed in some of the rural areas where it is necessary to have more than one child to continue the farming activities.

We, of course, do not condone in any way that policy or the means by which the policy has been achieved. It is our understanding that there is some means by which families can, if they have an additional child, pay a one-time fine and then not bear any further consequences from having an additional child.

And the decision to abort female fetuses is one that we consider reprehensible because we are a prolife organization. But it is not a policy decision; that is a decision made by parents, rooted in 5,000 years of traditionally favoring boys over girls.

Chairman CRANE. Well, that was my understanding. There was also a case recently—in the Wall Street Journal, I think—about a young lady working down in southern China, I think, in one of the big towns down there. She was making $36 a month, and then she went into business for herself and she got up to about $1,200 a month. By making a one-time payment of $1,500, my recollection is—and I will stand corrected—she was out from the one-child burden, and was able to have a second child.

Mr. BAUER. Mr. Chairman, while one can celebrate the one lady referenced in the Wall Street Journal, a country that tries to regulate by force the number of children its people have; a country that, according to the BBC documentary I am sure we have all watched, starves female orphans—whether out of tradition or not matters

very little—is a country demonstrating a degree of evil that a country like ours, based on the ideal that all men are created equal, certainly ought to take note of and, I would suggest, ought to alter its trade policy on the basis of it.

Ms. HILLEY. Mr. Chairman, if I may continue the dialog, the report that you refer to, "The Dying Rooms," was not actually produced by the BBC but by an independent organization. It was shown on Channel 4 in England and then later shown by CBS here in this country, and there is no denying that it probably happened in that particular instance. The unfortunate thing, though, is that it has been shown and portrayed as being overarching policy of the Central Committee of the Communist Party.

The same week that it first aired here in the United States about 2 years ago, another network displayed abuses that were happening in a particular mental institution here in the United States. And we here in the United States, even if we don't have firsthand experience with a mental institution, at least know the name of our State institution. So it is not difficult for us to reason that it is an isolated incident, an isolated event. Yet when we have a media portrayal of an isolated incident in China, the assumption is that it is an overarching policy——

Mr. BAUER. Which is it? Do they routinely kill their female unborn babies or is it an isolated incident?

Ms. HILLEY. The particular report that you are talking about, "The Dying Rooms"——

Mr. BAUER. Let's talk about the bigger question. You said earlier that it was "tradition" in China to routinely favor unborn boys over girls. Now you are suggesting that their hostility to women is an isolated question.

Do they routinely deny women in China the same treatment as they give to men? Are female babies and female orphans more at risk in China than boys are?

Ms. HILLEY. Mr. Chairman, female babies may be more at risk in China. But, again, I don't believe you can say it is a function of political decisions made on the part of the Communist Party.

Mr. BAUER. To the dead girl, it is of little consequence whether it was an official decision made by somebody in the Communist Party.

Chairman CRANE. Can I ask one more final question, before I defer to Charlie, to Reverend Su or Dr. Torjesen. Could you describe how the Chinese Government currently regulates the practice of religion in the mainland? How does that registration process work?

Reverend SU. You mean registration of the independent unregistered religious groups?

Chairman CRANE. Right.

Reverend SU. Basically, right now, as in the past, the Beijing Government has tried to get all the religious groups registered with an officially-recognized group called the Free Self-Patriotic Movement, which is basically under the government's supervision. And basically, the government would like all the religious groups to get with the service so that they know exactly what is going on.

And there has been a lot of debate. A lot of Christians have chosen not to register because they feel that, once registered with the

government, they will lose control of their churches; they will be totally under the influence of the government.

Chairman CRANE. Let me ask you a question in that context. I don't know whether this was distributed, but it is a letter from Billy Graham's son describing religious activities on mainland China. One thing he refers to repeatedly is "house worship," I think was the term he used—I gather that people go to practice their religion in someone's house. And he has been aggressively involved in this and Bible distribution. Yet I thought that if you were not registered, that is when they came in and stepped on you.

Reverend SU. That is something interesting and very unique about China, I think. The laws in China are not exactly like the laws in the United States: they differ from place to place and from time to time, depending on the political priorities of the government. So a single place of worship could be persecuted today and go on freely other times of the year. It is hard to say.

Policy, in general, is that the unregistered groups are considered illegal. But to what degree that policy is enforced is still questionable because we see persecutions come and go. Sometimes there are more persecutions and sometimes there are more relaxed periods for the church. You also have to deal with the overall involvement of China's political priorities and also the international situation. So all of these factors tend to play together. And I think one of the strengths of the structure of the Chinese Government is that they do not do things in isolation; they look at the whole thing and look at the total net impact. And so I think that when we try to understand China's religious policy, we need to look at it in light of the whole context, both domestic and international.

Mr. CARR. Just a comment on that from our perspective: It seems the fundamental problem in China is that religion is seen as something under the control of the government rather than the church. If you wish to form a church, you register and affiliate with the Patriotic Church, whose loyalty is to the government. Failure to affiliate with, for example, with the Patriotic Catholic Church, is a crime in China and there are people in jail because of their refusal to do so.

Catholics are not permitted to profess their loyalty to the Holy Father, the Pope. You cannot publish the catechism of the Catholic Church because it is inconsistent with the policies of the Chinese Government. That has left us with a complicated situation in China where you really have two faces of the Catholic Church—the government-approved church and the underground church.

For us, we seek the unity of the church and reconciliation. The Pope has spoken of his desire for the Holy See to have strong relationships with China and to have Catholics work together. But the government's insistence on controlling religion, on appointing bishops, on denying the ties of the church to the rest of the world is a terrible obstacle in this regard.

There was a hope, frankly, that this was getting better, that the economic engagement and other sources of dialog were leading to improvements in this area. And there were some signs of that; sadly, over the last several years the law—the regulation and practice—have gotten worse. The week before Holy Week, police came into the home of the bishop of Shanghai, ransacked the place, and

took all the worship materials for Easter. Sadly, religious persecution is growing, not diminishing, in China.

Mr. TORJESEN. Mr. Chairman, could I say something?

Chairman CRANE. Certainly.

Mr. TORJESEN. There are two factors that we need to consider in this area. The persecution is often concentrated in the rural areas away from the big cities. One reason is that, in the rural areas, farmers still live under the old Communist dream of having an atheistic society and want the county to be recorded as an atheistic society. And the moment they have to register a religious person—which the government now says must be done—they fear they are going to lose their status. So there is a certain cooperative effort between many churches, especially those that have evangelical pastors, to help these churches in the country to get registration and fight opposition to it.

And we ourselves have been involved in that. In the cities there is very little persecution, but we need to be aware of the fact that the Free-Self movement today is not what it used to be. Under the free enterprise situation, they have got to have their own budget, and their budget doesn't permit them to function that way.

But in communities where they have evangelical pastors, most of the pastors—men and women who were released from prison—have come in and developed a tremendous evangelical movement in the Chinese churches. In these churches, they reach out and help the rural churches all they can. We need to press for that evangelical movement in China, rather than the bureaucratic movement which the Free-Self church developed. And if we understand that dynamic, we can see how the Chinese are able to deal with their own situation in their own way. It is crucial that the church functions legally rather than illegally, just like in our own country here.

Chairman CRANE. Thank you. Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

I wish I could hear discussions about human rights here in the United States with the same concern as we have—and should have—wherever violations occur throughout the world, China being no exception. But, as I said this morning, I find it very difficult to set moral standards through our foreign policy and our trade policy when I have a lot of problems with the political situation that exists in this country as it relates to human rights.

And Mr. Bauer, it is fascinating; I have seen how you so many times eloquently talk about the Christian way that our country should behave. And I find it difficult telling somebody else the standard of behavior that I expect as an American of them, if they are going to do business with us, given our history of slavery and torture and assassinations and people being burned in churches and homes, and the President being insulted because he wanted to apologize for the way the country historically treated African-Americans.

And something that is difficult to talk about, but I mentioned it—all the statistics show that in this country, one out of three black kids, male kids, are going to end up in jail. And in Baltimore one out of two. Now, I know that is not political, but I can see how some unfriendly person could look at our country and say this is how we treat these people: they go to jail. And then when you look

and see who really comprises this 1.6 million people who are in jail, more often than not they are poor people and they are minority people. How would you explain it if someone were to challenge your right as an American to set the moral standards for another country, knowing the history of our great republic?

Mr. BAUER. Well, Mr. Rangel, the last time I looked, MFN was our trade policy, not China's trade policy. I am suggesting that we set American trade policy to reflect certain American values. That is what is at issue here. China can listen to you or listen to me; maybe they will, maybe they won't. But we are making American trade policy, and I believe that American trade policy ought to be built on American values.

I must say, Congressman Rangel, that over the years you have been eloquent talking about human rights. You did not hesitate, nor should you have hesitated—and I agreed with you at the time—when the issue was human rights in South Africa. The Declaration says, as you know and have quoted eloquently, all men are created equal. It doesn't say all Americans. It doesn't say all white men, all black men, or all Chinese. It says all men; it was a universal vision. And the fear of it still keeps tyrants from sleeping well at night.

Mr. RANGEL. I don't think I made my question clear, because you and I are in accord. And whether you are Christian or Jewish or Gentile, common decency would dictate that you respect the rights of human beings and try the best you can to protect them. So I don't think I have any problem with you there. But I think trade policy is national policy, and I think it is the President that sets it. And if he sets the standard by saying that American trade policy is doing business with China and wants to not do business with Cuba—which to me is inconsistent—then that is the American trade policy, after people like you and me have had input into the making of the policy.

My question was whether it is the human right of a Chinese lady or the human right of an African couple not to have the heavy burden that is this child that is born a male, the third one or the second one. That to me is a very political question. And I asked if you would have any difficulty, if it were asked of you, in saying to country x, we will not do business with you because you don't respect human rights. I could answer that very easily. However, what I am asking is how do you explain our standard in the United States where no one challenges the fact that one out of three black kids end up in jail?

Mr. BAUER. But Congressman Rangel, these issues are talked about and debated in the United States all the time. We could spend all afternoon debating it here.

Mr. RANGEL. You see, when I leave the United States, there is nothing I can think of that is wrong with my country. It is the land of opportunity and the best country that mankind ever conceived. But when I am back home with your high standard and, I hope, mine of protecting human rights—I am not talking about debating it. If a Chinese Communist was to tell me—we debate this every day—what we should do with women and children. I don't want to hear about debate; we are talking about a national policy that has been established in every city, in every State. The main growth in-

dustry is prisons and the main occupants are minorities. And I am saying, this is not a debate. This is a fact. How do you explain it?

Mr. BAUER. Are you suggesting that it is a national policy of the United States to throw a third of young black men into jail because they are young black men?

Mr. RANGEL. Let me rephrase the question: It is the national policy of this country not to do anything about it.

Mr. BAUER. Sir, I hope you are playing devil's advocate; people of good will attempt to do things about it all the time. I, for example, have advocated—even though I believe you disagree—that one thing happening to young black men is that they are trapped in schools that do not work. And my solution is to provide educational vouchers so that those inner-city youth can go to schools that do work. That is an attempt to do something about the problem.

Mr. RANGEL. I am not challenging what you are saying. All I am saying is that if any Communist tried to explain what they are debating in China, I hope you would not accept it. Because I would not accept it. If they are trying to tell me that different groups of Chinese are trying to reform the system and one day they hope to have a higher standard, but because there are a billion and two you lose some, you gain some, I won't accept it. I won't tolerate it.

But I hope that you will not accept as an American the fact that we are wrestling with the problem and the problem continues. This problem, one way or the other, we have wrestled with since slavery. And I am saying that worse than slavery, in my opinion, is the fact that one out of three of anybody—Chinese, American, Catholic, or Protestant—you don't say, I'm trying to do something about it. It is the policy to prefer incarceration over education: that is the policy. That is the budget; that is the State policy.

Mr. BAUER. Congressman Rangel——

Mr. RANGEL. Would you feel uncomfortable, as I do, in saying, We have got a lousy policy in our country too, but we are trying to overcome it?

Mr. BAUER. Congressman Rangel, I continue to disagree with you that it is the policy of America to throw its minority youth in jail. We have worked together many times over the years, and you and I agree on some occasions and on many occasions we don't. But I don't seriously think either one of us would grow silent in the face of a Chinese Government official who would suggest that what is going on in China is in any way, shape, or form comparable to the struggles we face in the United States.

The Chinese leadership, by definition, do not see all people as created equal and endowed with rights. They see them as the exact opposite, and they say this is a desperate threat to their ability to maintain the power they want to keep.

Mr. RANGEL. Well, I am not a psychiatrist so I don't know what these Chinese Communists think. Whatever they think, they shot me in the behind in Korea so I don't like them, period.

Mr. BAUER. Read what they say.

Mr. RANGEL. You do not have to convince me that they are not nice people. I just wish I could see more compassion for the families of the kids that are going to jail, dying every day, being shot down in the street. I don't hear the debate; we ought to have a

most-favored-nation debate for our inner cities and the poor and impoverished.

I am just saying that I myself have not really been able to say that our country has reached that moral level where we have proven to the world that all men are created equal. Maybe you and I ought to get together not to lower the standard in China, and not to make the belief that we are trying to do something about it more prevalent, but between your people and what is left of mine we can do something about it.

Mr. BAUER. Congressman Rangel, that might be a really good thing to come out of this hearing. I understand there has been a lot of horse-trading going on behind closed doors the last couple of weeks over the MFN issue as the corporate lobbyists have spread out over Capitol Hill. But I am certainly willing to pledge on behalf of our 350,000 members that I will sit down with you and look for ways that we can more effectively raise human rights issues in the United States. But in exchange I would like your pledge and your vote against MFN.

Mr. RANGEL. You see, what I am trying to do for human rights is create jobs for Americans. I truly believe that you don't need a lot of human rights once you get access to education and training, and acquire self-esteem and the ability to make it in this world. And I don't care whether you are white or black. Immigrants came here and, having access, they were able to be anything they wanted to be. They had opportunity.

I believe that trade is the only area for economic growth in our country. I truly believe that if we ignore China, we won't have dialog. Just like you and I: We don't ignore each other; we think differently about a lot of things. But what you are promising and I have accepted is that we are going to talk and see how we can make things better.

Mr. BAUER. But if, Congressman——

Mr. RANGEL. If jobs can be created through trade, I want to be playing that game. If the President of the United States and his Trade Representative say, this looks like the best game plan for your country, then I don't want to get involved in the religion thing. I think religion is how God is treating you and how much hope you have that you are going to be treated better.

Mr. BAUER. But, Congressman, you certainly concede that this is a different approach than you took on South Africa. You never said that the trade issue was more important than what was happening to the people of South Africa.

Mr. RANGEL. I will share with you—that is constantly brought up to me, and I don't see a conflict in my thinking.

When the whole world sees a handful of people governing the lives of all of the people, the majority of people in Africa, and these countries say that they have got to come in and embargo—and that embargo was effective because this Subcommittee cut off the tax privileges that certain American firms have there. But this unilateral embargo, whether it is Cuba or whether it is stop talking to China, is dumb——

Mr. BAUER. Well——

Mr. RANGEL. When everybody else is participating and training and doing what they want.

Now, we can take the moral high ground, but you are losing jobs for me. And you are on television, and everyone is eloquent, and this is—articles are written, and we now have kids thinking there are not going to be any jobs for them.

So I am taking a gamble with God that he would prefer that I do it this way, so that we can have job opportunities for kids. And so I am saving the lives of people here, and bless and pray for those people that are trying to save lives in China.

Mr. BAUER. Congressman, the reason that we weren't alone on issues like this in the past is that the President I worked for for 8 years made sure that our allies knew that it was in America's interest, and that we expected them, as our allies, to stand with us when we didn't give MFN to the Soviet Union, for example.

You have got much more influence with the current President than I do. I would urge you to urge him to make sure the United States would not stand alone if it revoked MFN. Quite frankly, free people all over the world ought to be concerned by a Chinese foreign policy that trades with Iraq and Iran, fires missiles in order to intimidate Taiwan, and all the other things we see consistently and regularly happening.

Mr. RANGEL. Well, if you think my President has a great influence in countries like France that are just waiting for us not to be involved in trade—it is that thought that controls what they do, and they just fill the gap. I am trying to tell my President to get out of the arms business, but he shows me how many other countries are going to make money there.

So we have to pray together for all Presidents, Democrats and Republicans.

Mr. BAUER. You are right, Congressman Rangel, and the President is wrong. We should be getting out of the arms business, particularly selling arms to people who are likely to shoot at America's sons and daughters.

Mr. RANGEL. Exactly. We will be meeting.

Reverend SU. May I have a comment on the abortion issue in China?

Mr. RANGEL. I am not talking abortion. I have enough problems with my Pope.

Mr. HOUGHTON [presiding]. I think we had better move on to the next panel. I really appreciate everyone—oh, wait a minute. Just a minute, Mr. Matsui has a question.

Mr. MATSUI. I just have—if you all can forgive me, I was in a meeting in the back there, so I was not able to hear any of the testimony from the six of you. But perhaps I can ask you, Mr. Bauer, because you are an opponent; I guess you and Mr. Carr are the two opponents on this panel of six.

Mr. BAUER. Yes.

Mr. MATSUI. And you may have already responded to this, so I may be repetitive. But cutting off most-favored-nation status with China at this time: How might that accomplish the result you are seeking which, I believe, is to move China toward a democracy, with freedom, due process, civil liberties, and all that is attendant to a democracy?

Mr. BAUER. Right. Well, Congressman, the whole thrust of my statement was that it is not moving very effectively toward these

things. In fact, in contrast to some of the assertions made by others, I think there is evidence that Beijing responds more when the United States repairs back to its founding values.

For example, after the Tiananmen Square massacre, when the Chinese Government faced the real possibility of MFN being voted down in the U.S. Congress, they immediately began to clean up their act: They released over 800 prisoners, they awarded contracts to several American companies, and they did other things to signal that they understood the outrage of the United States.

And then, of course, when we did not vote down MFN or were unable to vote it over a Presidential veto, they went right back to their previous policies.

I believe we are in the driver's seat.

Mr. MATSUI. We have—I think there may be some revision of history, or maybe we perceive history differently. Right after Tiananmen, Mr. Eagleburger, Mr. McFarlane, and, I believe, Mr. Scowcroft—the three of them went to Beijing. In fact, there was an infamous photo in the New York Times and every publication in the world——

Mr. BAUER. Right.

Mr. MATSUI. In which our top three leading foreign policy people in the Reagan-Bush administrations were toasting the Chinese leaders, if you recall. I talked to Mr. Eagleburger about this later, and he said, They sandbagged us—which, obviously, they did. He didn't realize his photo was going to be sent all over the world to every publication that——

Mr. BAUER. It must have been done by the same folks that got that picture of Vice President Gore.

Mr. MATSUI. What I am saying—I am not criticizing any of the subjects being partisan. What I am saying is that the Chinese knew that President Bush was going to veto any resolution or disapproval. In fact, they also knew that in the Senate there would be enough votes to override, to sustain. So the whole issue of MFN was never threatened under President Bush. And so it was never leveraged, in any event.

Mr. BAUER. Congressman, the Chinese——

Mr. MATSUI. And the reason that he allowed and made some of these decisions that you refer to as liberalization of contracts is because they wanted to reward, or at least normalize, a relationship and show President Bush that this was resulting in a positive response. It wasn't that they felt threatened by the loss of most-favored-nation status.

Mr. BAUER. Well, I certainly would be willing to submit to the record my version of history, which you apparently disagree with.

But let me say that I think the Chinese were not focused on the U.S. Senate or on President Bush. I believe they were focused on the people's House, of which you are a Member and that, in fact, does speak for the American people; thus, its name.

In the years since, their attitude toward the people's House has changed. The Chinese Government now refers routinely to the "moneybags" Congress and refers to America as a "moneybags" democracy. They have concluded that our highest values are trade and money and that other things, including our founding values,

are mere trappings and declarations that we don't really care about. I would like to disabuse them of that notion.

Mr. MATSUI. Let me just conclude by making this observation. One of the real problems I see with this entire debate is that it is happening on most-favored-nation status with China. And that is why the whole issue of economics comes into play when we really should be discussing the issue of human rights. We should be discussing the issue of Tibet. We should be discussing the issue of Hong Kong and its succession into China, and Taiwan. But, instead, we are always caught—every 12 months—with the issue of economics, and that is the problem with discussing China in the context of most favored nation.

I think it would be wonderful if we could get off most favored nation and start talking about China in the context of these issues that I think you are concerned about—every one of the four others and Mr. Carr, every panel we have had, including every Member, whether they are for or against MFN. That is why this is such a difficult issue to deal with.

Mr. BAUER. Of course it is. But you do know, of course, that the same interests in the United States that go ballistic every time the MFN vote comes up also come to the Congress every week against doing anything on the human rights issue.

The story that Mr. Carr told about the corporate executive that was unable to cite one thing that his corporation had done in order to promote human rights in China is not an odd story. In fact, the evidence is overwhelming that American companies operating in China constantly cooperate with the oppression of the Chinese Government, even allowing Chinese police to come into the company and check the menstrual cycles of their female employees to make sure they are not pregnant.

We just heard of a story recently where Chrysler fired an employee in China; he missed a week's work because he had been arrested for praying. American corporations show absolutely no interest, by and large, in doing anything about human rights in China.

Mr. MATSUI. Mr. Bauer, you know what is interesting? I think your opposition to MFN and your presence in this debate will help make the business community begin to realize——

Mr. BAUER. Thank you.

Mr. MATSUI [continuing]. They have to begin the process of thinking through some of these issues a little better. I find that, since you have been in this debate—and the Christian Coalition and some of the other groups—now some business leaders are, in fact, saying that we must do more. And so, you know, I welcome you——

Mr. BAUER. I appreciate that.

Mr. MATSUI [continuing]. Participating in this——

Mr. BAUER. Thank you.

Mr. MATSUI [continuing]. Because I think you have moved this debate in areas that have improved the discussion.

Mr. BAUER. Thank you.

Mr. HOUGHTON. Dr. Su, I am terribly sorry; there isn't enough time. Maybe you can write us a note about some of your feelings.

Reverend SU. That is fine. Thank you.

Mr. HOUGHTON. Thank you very much, ladies and gentlemen, for being here.

Now, I would like to welcome the next panel of witnesses, the first being Cal Cohen, president of the Emergency Committee for American Trade, ECAT. Next is John Howard, director of policy and programs for the international division of the U.S. Chamber of Commerce; Jim Williams, general manager and controller of Ohsman & Sons in Cedar Rapids, IA; and Bob Kapp, president of the U.S.-China Business Council.

I would remind you and other members of the panel to please keep your oral statements to 5 minutes or less. I look forward to your testimony, and thank you very much.

All right. Well, gentlemen, good to have you here. Thanks very much.

Mr. Cohen, would you like to begin the panel?

STATEMENT OF CALMAN J. COHEN, PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. COHEN. Thank you. My name is Calman Cohen. I am president of the Emergency Committee for American Trade, ECAT, and I am pleased to appear before the Subcommittee today to present ECAT's views on the importance of renewing China's MFN treatment.

Our written testimony details the ways in which the continuation of China's normal trade status is vital to our National economic and strategic interests, and to our ability to support the internal forces which are pressing for greater economic reforms, personal freedoms, and respect for the rule of law within China.

To highlight the fact that MFN treatment merely provides reciprocal, nondiscriminatory treatment and is given to all our major trading partners, we use the term "normal trade status" instead of "MFN" in our testimony. In my oral remarks, I would like to respond to some of the arguments that continue to affect the debate over renewing China's normal trade status.

The first argument is that extension of MFN treatment to China means that we are giving China special treatment. In reality, the term simply means that an importing country will not discriminate against another country's goods in favor of a third country. The United States grants such treatment to virtually all of its major trading partners. We do not give this treatment to China or any other trading partner for free; in order to receive it, China must give us reciprocal treatment.

The second argument is that termination of normal trade status will be of no cost to the United States; the reality is that termination would have a tremendous cost to us. Because the status is granted on a reciprocal basis, when we withdraw it, we will also lose the status that China has granted to U.S. production. Consequently, our exports will become subject to higher, non-MFN Chinese tariffs.

Also, the withdrawal will cause great disruption and uncertainty in our bilateral commercial relations with China, which will jeopardize U.S. exports and investments. Our written testimony provides the examples of a number of ECAT members, including Otis

Elevator of Bloomington, IN, which, since the early nineties, has revived its Bloomington factory based on increased sales to China.

Withdrawal will also have a cost to U.S. political leadership. Rather than following the U.S. lead, our trading partners will gladly take advantage of the competitive opportunities that we will lose.

The third major argument is that closing the U.S. market to China will help eliminate barriers to U.S. goods and services in the China market. There is no question that there are major barriers to U.S. goods and services in the China market, but removing normal trade status would not remove market barriers and would, indeed, create additional barriers.

The most effective means of dealing with the significant barriers that remain to market access is for China to become subject to the rules of the multilateral trading system: To become a WTO member, China must subject itself to WTO rules.

As part of the accession process, each WTO member has the opportunity for bilateral negotiations with China. The United States has engaged in such negotiations, and they offer the best opportunity to deal with the barriers.

The fourth argument is that the United States must choose between promoting U.S. commercial interests and advancing America's interests in individual rights. The reality is that the United States does not have to make this choice because these interests are mutually reinforcing. Our policy of commercial engagement supports the strengthening of the Chinese economy and the growth of China's middle class and other groups that encourage increased personal freedoms and increased respect for the rule of law.

The fifth major argument is that direct investment in China and elsewhere is done at the expense of America's domestic economy. The reality is that, instead of hurting the U.S. economy, foreign trade and investment have contributed to the health of the U.S. economy. Our 1993 ECAT study, entitled "Mainstay," demonstrated that the U.S. industries with the highest levels of foreign investment also have the highest rate of exports.

The sixth argument is that the United States determines the nature and pace of change in China. In reality, the pressure for positive change and reform in China is the result of internal forces. Our policy of commercial engagement has only promoted prosperity and the forces for greater reform.

The seventh major argument is that renewal is only in China's interest. The reality is renewal is in our Nation's economic and strategic interest and also furthers the U.S. goal of promoting greater respect for human rights. Our exports to China total over $14 billion.

The eighth argument is that any benefits to the United States of China's normal trade status are isolated and not widespread. The reality is the benefits of extending normal trade status cut across our industrial, agricultural, and service sectors, affecting small-, medium-, and large-sized companies. Indeed, in the agriculture sector alone, China is the sixth largest export market for the United States. U.S. consumers would experience an increase of between $30 and $32 billion in costs if China's normal trade status were terminated.

Mr. Chairman, the success of ECAT and others in accelerating internal momentum for economic and social reform in China is the best refutation of the arguments against renewal of China's normal trade status. U.S. companies have an exemplary record of setting high standards and promoting American values in China, and should be encouraged to continue and expand their efforts in China by your renewing of China's normal trade status. Thank you.

[The prepared statement follows:]

Statement of Calman J. Cohen, President, The Emergency Committee for American Trade (ECAT)

I. INTRODUCTION

I am Calman J. Cohen, President of the Emergency Committee for American Trade (ECAT) and am pleased to appear before the Trade Subcommittee to present ECAT's testimony on renewal of China's most-favored-nation (MFN) status. ECAT represents the heads of major U.S. international business enterprises representing 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.

The maintenance of stable bilateral commercial relations with China is a priority for ECAT member companies. As President Clinton emphasized in announcing his intention to renew China's MFN treatment, "We believe it's the best way to integrate China further into the family of nations and to secure our interests and our ideals."

Expanding China trade, in terms of greater access to China's market and as a gateway to the burgeoning markets of the Asia-Pacific region, is vital to ensuring the continued growth of the American economy through the next decade. Maintaining strong economic ties with China also furthers our political and strategic objectives in Asia, particularly with regard to Hong Kong and Taiwan. It is also an effective way to promote greater personal and economic freedoms in China.

The term most-favored-nation, despite its well-established meaning, has been interpreted by some as implying that China is being given special treatment; however, the term most-favored-nation simply means that an importing country will not discriminate against another country's goods in favor of a third. The MFN principle has long been embodied in international commercial law under treaties of friendship, commerce, and navigation and is a core principle of the original GATT rules. The United States grants MFN treatment to virtually all countries, excepting only Afghanistan, Cuba, Kampuchea, Laos, North Korea, Serbia, and Vietnam. Therefore, in extending MFN treatment to China, we are only conferring what is normal trade status for the majority of U.S. trading partners. Furthermore, we are not providing this normal trade status for free. In order to receive it, China must give us reciprocal MFN treatment.

In light of the misunderstanding of the term MFN, we will refer to it as normal trade status throughout our testimony.

While the renewal of China's normal trade status is our immediate objective, ECAT believes that it is important not to lose site of the need to continue efforts to restructure our relations with China based on: (1) China's joining the World Trade Organization (WTO) based on a commercially acceptable protocol of accession which provides meaningful market access to U.S. goods and services; (2) the U.S. extension of permanent normal trade status which will allow us to enjoy the benefits of China's WTO membership; and (3) the elimination of U.S. unilateral sanctions which unnecessarily restrict U.S. commerce with China.

II. CHINA'S NORMAL TRADE STATUS SUPPORTS OUR NATIONAL ECONOMIC INTEREST

The renewal of normal trade status for China is essential to the continued expansion of U.S.-China trade. The expansion of U.S.-China trade is vitally important to ensuring the future growth of U.S. exports and related American jobs.

A. Importance of China Market

China remains the largest emerging market in the world and the gateway to other countries in the Asia-Pacific region. Between 1990 and 1996, U.S. exports of goods and services to China almost tripled, increasing from roughly $5 billion in 1990 to over $14 billion in 1996. These exports are an important source of U.S. employment as they support over 200,000 U.S. jobs. The Chinese market is of critical importance

to U.S. industrial sectors such as aircraft, power generation, computers, telecommunications, and autos.

China is also a significant market for U.S. agricultural exports, since China is the sixth largest market for U.S. farm exports. U.S. agricultural exports to China totaled $2 billion last year. The majority of the recent growth in U.S. agricultural exports to China has been in bulk goods, such as wheat, cotton, and soybeans.

There is a vast potential for further expansion of U.S. sales of prorvices in China. Over the last ten years, China has had an average annual growth rate of 10 percent in GDP, which is a faster rate than that of any other major economy. In addition, China will spend over $750 billion in new infrastructure projects over the next decade in areas such as aviation, power generation, telecommunications, and computers.

A U.S. foothold in the Chinese market is also key to gaining greater access to other Asia-Pacific markets which hold great potential for U.S. export growth. U.S. trade with the Asia-Pacific region is already 50 percent greater than U.S. trade with Europe, supports 3.l million U.S. jobs, and is growing at a faster rate than U.S. trade with Europe or Latin America.

B. Examples of ECAT Member Company Trade and Investment in China

The renewal of China's normal trade status is a priority for ECAT member companies. The Chinese market is very important to the future growth of many of our member companies and to their ability to expand their access in the Asia-Pacific region.

The withdrawal of China's normal trade status would jeopardize our member companies' existing investments in and trade with China. For example, in the industrial sector, United Technologies Corporation (UTC) is one of the most active companies in China, with 16 joint ventures and an investment of $189 million. UTC's businesses exported $411 million in products to China last year, which supported over 8,000 U.S. jobs located in Connecticut, New York, Indiana, Tennessee, Georgia, Maine, Mississippi, Ohio, Florida, and elsewhere in the United States. Some specific examples of the importance of U.S.-China trade to UTC companies include:

1. Otis Elevator Company, which is owned by United Technologies, has been able to increase its exports to China from $7 million in 1993 to $78 million in 1996, and sales revenue is expected to continue to increase dramatically, as roughly 200,000 elevators are expected to be purchased in China over the next five years. Otis sales to China and other parts of the Asia-Pacific region have helped to revive its Bloomington, Indiana, factory where falling U.S. demand had resulted in major layoffs in the early 1990s. The flood of orders that has been received from China and other Asia-Pacific countries since 1993 has revived the plant's operations and holds the promise for expanded sales.

2. The experience of another UTC company, Carrier, parallels the story of the Otis Elevator factory in Indiana. The China market is very important to Carrier's success. While, as part of gaining a greater foothold in the Chinese market, Carrier has added manufacturing capability in China, the number of large commercial air-conditioning units built for export by the 600 employees at its Syracuse, New York, plant has grown steadily. Half of the Syracuse plant's production was for export last year, and half of those units were shipped to China.

Another one of our member companies, Texas Instruments, has been in China since the early 980s. It is currently engaged in a joint venture operation in Jiangsu Province, producing electrical control products. In addition, it has expanded its presence in Beijing and opened a new office in Shanghai to provide greater customer support. Texas Instrument's strong and growing presence reflects the increasing importance of China's market to the world's electronics industry. Asia is expected to account for 30 percent of the estimated $1.2 trillion worldwide electronics market in the year 2000, with China accounting for $84 billion of that total. Keeping a foothold in the China market and the Asia-Pacific region is essential to maintaining Texas Instruments' global competitiveness.

In the agricultural sector, Cargill, another ECAT member company, is successfully expanding its business in China, which is one of Cargill's largest markets for grain, proteins, fertilizers, and other commodities. Some examples of the inroads Cargill has made in the China market include:

- the purchase of a grain-drying plant in Changchun, located in the middle of China's corn belt;
- the establishment of a joint venture in Tianjin to set up a bulk-blending fertilizer plant. Cargill's joint venture has been able to sell fertilizer directly to farmers and local farm stores rather than to the Chinese government to distribute;
- the establishment of a soybean processing plant in Jinan, processing 5,000 metric tons of soybeans a month; and

• construction of what will be Cargill's largest feed mill in the world, with the capacity to product 250,000 metric tons a year.

These facilities are improving the lives of the Chinese citizens who work in them, live near them, and buy their output. These facilities in China, as well as Cargill's other activities in China and the Asia-Pacific region, are important for Cargill's competitiveness.

The success of UTC, Texas Instruments, Cargill, and other American companies in penetrating the Chinese market would be jeopardized if China's normal trade status were withdrawn. Furthermore, in the 1980s, U.S. business was criticized for not doing enough to remain competitive in global markets. Since then, U.S. firms such as UTC, Texas Instruments, Cargill, and other U.S. firms have made great strides in improving their competitiveness in China and other global markets. Failing to renew China's normal trading status would be a major setback to the gains that these firms have made in improving their global competitiveness in China and the Asia-Pacific region.

III. China's Normal Trade Status Promotes Greater Strategic Cooperation Between the United States and China and Furthers Individual Freedoms in China

The expansion of U.S. commerce with China, which has occurred since our 1980 extension of normal trade status to China, has been built on a policy which aims to promote strategic cooperation and a broader economic relationship. This policy of engagement has encouraged China's cooperation in U.S. efforts to promote global and regional security. It has helped the United States to gain China's adherence to key multilateral nuclear and weapons proliferation regimes, including the Nuclear Non-Proliferation Treaty and the treaty banning nuclear testing. Our engagement policy has also helped the United States to gain China's help in preventing instability on the Korean peninsula and in supporting peacekeeping operations in Cambodia. Removal of China's normal trade status would undermine the important progress that has been achieved in gaining greater Chinese cooperation in these areas.

Withdrawal of China's normal trade status would also reduce America's contribution to China's market-oriented economic reforms, as well as to the freedoms of individual Chinese citizens. In the last decade, China's market-oriented economic reforms, which American trade and investment help to support, have accelerated sweeping changes in Chinese society. The Chinese people have experienced dramatic improvements in living standards, expanded economic freedom, and increased access to outside information and ideas. American companies support positive change by providing alternatives to jobs in state-owned enterprises, paying higher wages, maintaining superior working conditions, and honoring the principles of good corporate citizenship. Withdrawal of China's normal trade status would greatly reduce, if not eliminate, the positive force of U.S. trade and investment in Chinese society.

IV. China's Normal Trade Status Advances the Stability and Economic Vitality of Hong Kong and Taiwan

Continuation of China's normal trade status is essential to ensuring the preservation of Hong Kong's economic prosperity and the personal freedoms of Hong Kong's citizens after Hong Kong is transferred to Chinese sovereignty in July of this year. The extension of China's normal trade status is also crucial to maintaining Taiwan's prosperity.

A. China's Normal Trade Status and the Future of Hong Kong

Hong Kong's economic success has been based on its role as a gateway to China trade. Therefore, efforts to build a more stable commercial relationship with China are essential to ensure Hong Kong's continued prosperity. The maintenance of China's normal trade status is key to this prosperity because if China's normal trade status were removed, Hong Kong's trade would drop by up to $30 billion, its production could decline by as much as $4.4 billion, and it could lose as many as 90,000 jobs.

The withdrawal of normal trade status from China, or any other action placing Hong Kong's economy in jeopardy, would undermine Hong Kong's ability to exercise its influence on mainland China. In preserving Hong Kong's economic strength and vibrant society, the chances are greater that Hong Kong will be able to continue to have a positive influence on the development of mainland China long after July 1 of this year.

ECAT believes that the soundness of Hong Kong's economy must be maintained by continuing China's normal trade status and improving U.S.-China bilateral rela-

tions. At the same time, ECAT believes that Hong Kong's vibrant capitalist system supports the personal freedoms of its residents and helps to ensure that Hong Kong can continue to provide impetus for economic reform and increased freedoms in China.

B. China's Normal Trade Status and the Prosperity of Taiwan

Since the early 1970s, the United States has adhered to a "One-China" policy under which the United States formally recognizes the People's Republic of China, acknowledges that Taiwan is part of China, and maintains only unofficial commercial and cultural 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 relations with both China and Taiwan, which are major U.S. export markets. The "One-China" policy has supported Taiwan's evolution into a leading industrialized economy and growing democracy.

The "One-China" policy has also promoted increased bilateral exchanges and mutual cooperation between China and Taiwan on a wide variety of strategic, sectoral, and cultural issues. China and Taiwan also have close trade and investment ties, with trade flows between the two countries now exceeding $17 billion annually and Taiwanese companies having investments of over $25 billion in China. Links between China and Taiwan are also reinforced by the millions of Taiwanese who visit China each year for personal and business reasons.

ECAT believes that the "One-China" policy has been preserving our economic relations with Taiwan in a way which allows its economy to prosper while permitting the United States to pursue a strengthened relationship with China. ECAT believes that the "One-China" policy should be maintained and that we should encourage the continuation of a bilateral dialogue between China and Taiwan.

V. Expanding U.S. Trade With China by Continuing Its Normal Trade Status Will Not Harm the U.S. Economy

Some have argued that China's normal trade status should not be extended because of the alleged threat that China's trade deficit poses to the U.S. economy and its workers. Clearly, we must make every effort to remove existing Chinese market access barriers to U.S. goods and services. We believe, however, that the claim that U.S. trade and investment in China is hurting U.S. interests reflects a lack of understanding of the benefits of U.S. trade and foreign direct investment to the U.S. economy. The current strength of the U.S. economy and our low unemployment rate also indicate that imports are not undermining our economy. Finally, it is important to take into account a number of factors influencing our bilateral trade deficit with China, including the degree to which the recent increase in our trade deficit with China represents a shift in production to China from other Asian countries and not the United States.

A. Benefits of U.S. Foreign Trade and Investment to the U.S. Economy

Rather than hurting the U.S. economy, U.S. trade and foreign direct investment have contributed to the health of U.S. companies and to the overall strength of the U.S. economy. In particular, U.S. foreign direct investment has led to increased U.S. exports which now account for 30 percent of our gross domestic product and support over 11 million jobs. Moreover, the significant increase in U.S. exports has occurred in high technology, high-wage manufacturing sectors. As a result, the U.S. jobs being supported by U.S. exports are better, higher-paying jobs which provide compensation 10 to 15 percent above the national average wage for manufacturing jobs.

ECAT's 1993 study, Mainstay, specifically analyzed the impact of foreign direct investment on the U.S. economy. The key findings of that report were that:

- industries with the highest levels of foreign investment have the highest rate of exports;
- the higher the share of U.S. direct investment in a foreign country, the more likely the United States is to have a merchandise trade surplus with that country; and
- a very small percentage of the shipments of U.S. foreign subsidiaries are to the United States.

We are now in the process of updating and expanding Mainstay to cover the services and agricultural sectors, as well as manufacturing. The updated study which is being prepared by Dr. Matthew Slaughter, a distinguished economist at Dartmouth College, is examining the ways in which U.S. foreign direct investment affects U.S. productivity and living standards. Assistant Professor Slaughter will be presenting some important new findings on the benefits of U.S. foreign direct invest-

ment to key determinants of U.S. productivity, such as U.S. research and development. The ECAT study will also present important new information on how U.S. foreign direct investment complements rather than replaces domestic activity. We plan to release the new updated Mainstay study later this year.

B. The Best Way To Deal With Our Trade Deficit With China Is To Expand U.S Exports of Goods and Services

There is no question that the U.S. needs to continue its effort to remove Chinese market access barriers to U.S. goods and services. Withdrawing normal trade status to end the deficit would be, however, a cure worse than the disease, as it would disrupt and not increase U.S. exports. Instead, we should secure China's accession to the WTO on the basis of a commercially acceptable protocol of accession which provides meaningful market access to U.S. goods and services. Until that goal is achieved, we should ensure that China abides by all its existing market access commitments.

It also should be noted that the U.S. trade deficit with China is due to a number of factors which should be put in perspective. First, due to flaws in U.S. Commerce Department methodology used to compile export and import statistics, China's deficit with the United States is most probably overstated by about one-third. This would mean that China's actual deficit with the United States in 1996 was approximately $24 billion.

Another factor affecting China's trade deficit is the degree to which it is open to foreign investment. In the recent past, China has attracted roughly 40 percent of all foreign direct investment in emerging markets. This investment is primarily from Hong Kong, Taiwan, and South Korea. Labor intensive industries such as footwear, clothing, toys, and sporting goods located in these countries have moved their production facilities to China to take advantage of lower labor costs. This production shift to China in these labor intensive industries now accounts for a large portion of U.S. imports from China. While this production has increased China's deficit with the United States, it has resulted in declining U.S. deficits with Hong Kong, Taiwan, and Korea. As a result, the increase in Chinese imports has not caused a significant loss of U.S. jobs and, instead, represents merely a shift in the location of low-wage assembly operations from traditional Asian suppliers to China.

In addition, U.S. unilateral sanctions imposed against China, such as the prohibition on the export of high-speed computers, commercial satellites, and peaceful nuclear technology, have restricted U.S. exports and put the United States at a competitive disadvantage. Such U.S. sanctions have also contributed to our bilateral deficit with China.

Finally, it is important to note that while the U.S. deficit with China has increased, so have U.S. exports to China. The rate of increase in U.S. exports to China since 1990 exceeds the rate of increase in U.S. exports to any other major market.

VI. Need To Move Beyond Uncertainty of Jackson-Vanik Annual Renewal of Normal Trade Status

The uncertain framework of our current bilateral commercial relationship with China stands in the way of achieving greater access for U.S. trade and investment in China and the Asia-Pacific region. That framework is based on a bilateral trade agreement extending normal trading status and the highly disruptive annual review of whether to continue to extend normal trade status to China under the Jackson-Vanik provisions of the Trade Act of 1974. For more than 15 years, as U.S. business has tried to expand its trade and investment ties to China, it has had to live with the knowledge that its exports and investments were in perpetual jeopardy due to the annual Jackson-Vanik review.

ECAT member companies believe that it is time to build the foundation to restructure our commercial relations with China. The first step in this process is renewal of normal trade status this year. The ultimate goal should be a stable U.S.-China commercial framework based on: (1) China's accession to the World Trade Organization under a commercially acceptable protocol that advances U.S. access to the China market; (2) the extension of permanent normal trade status to China so that the United States can fully benefit from China's accession; and (3) termination of U.S. unilateral sanctions against China that unnecessarily hamper U.S. exports to China. No gift to China should be entailed in a restructured U.S.-China relationship. The attainment of U.S. objectives should require China to make substantial commitments to liberalize its trade and investment regime and make other market reforms.

A. WTO Accession

China's accession to the WTO offers a unique opportunity to restructure U.S.-China trade in a direction that leads to a more stable and prosperous commercial relationship. It offers a means for the United States to move from having to enforce a series of bilateral agreements to a comprehensive approach to U.S. market access objectives for goods, services and investment. WTO rules and dispute settlement procedures would also provide a more effective means to enforce China's market access commitments and adherence to WTO obligations. China's accession to the WTO must be based, however, on a commercially acceptable protocol that improves U.S. market access and implements WTO rules and obligations.

While it seems unlikely that China's WTO accession can be finalized this year, every effort should be made to lay the groundwork for a final agreement on accession ECAT supports U.S. efforts to negotiate a strong protocol of accession. In particular, ECAT believes that a commercially acceptable protocol of accession should include commitments to provide the following:

• a substantial reduction and binding of tariffs on 2,300 priority items identified by the United States and a commitment to phase out residual quotas and import licensing restrictions;

• national treatment with respect to the treatment of foreign goods services, and investment. In this regard, a commitment should be obtained to phase out substitution and local content requirements and eliminate discriminatory taxes and restrictions on trading rights that violate the national treatment provisions of GATT Article III and GATS Article III. With regard to trading rights the United States should refuse to accept an extended phase-out period;

• the full implementation of the U.S.-China bilateral intellectual property rights agreements of 1992 and 1995;

• the elimination of restrictions on investment such as the imposition of requirements regarding export performance, import substitution, foreign exchange balancing, and technology transfer;

• the provision of non-discriminatory market access and the liberalization of existing geographic and licensing limitations to U.S. service providers, including financial services and telecommunications;

• the modification of industrial policies which are inconsistent with the WTO; and

• the elimination of barriers to U.S. agricultural exports which are inconsistent with the WTO, including sanitary and phytosanitary measures, that operate as disguised restrictions on trade.

Of these elements, ECAT member companies have been particularly concerned with gaining significant commitments on market access, trading rights, services, and investment.

To date, there has been some progress in accession negotiations. The Chinese are reported to have agreed in principle to make reforms in their economic regime and bring it into conformity with WTO standards.

In moving forward with China's WTO negotiations, the Administration should continue to consult with Congress on the progress and substance of the negotiations. ECAT believes, however, that any legislation requiring specific congressional approval for China's WTO accession could prove to be counter-productive. Such a requirement could further entangle trade and non-trade related issues concerning China. It would effectively tie the President's hands, with respect to securing China's accession, as well as set a burdensome precedent for requiring congressional approval of the accession of 27 other countries, including Russia, Vietnam, and Saudi Arabia, that have applied for WTO membership.

B. Need To Consider Moving Beyond Annual Normal Trade Status Renewal

The challenge this year is the preservation of China's normal trade status. In order to move toward a restructured relationship with China, however, it is time to consider moving beyond the divisive, annual debate over normal trade status renewal. Since the early 1980s when the United States extended normal trade status to China, our bilateral relationship has been held captive by the highly disruptive annual debate, which has undermined our commercial and strategic interests. Although the Jackson-Vanik statute is directed at freedom of emigration issues, the annual debate over China's trade status extends far beyond the scope of the statute to broad human rights concerns, proliferation, and a host of other issues which have no relation to emigration policy. As a result, Jackson-Vanik has become the vehicle for an annual referendum on U.S. China policy, which puts U.S. commercial interests at great risk, undermines U.S. reliability as a supplier, and gives European, Japanese, Canadian, and other foreign suppliers a competitive edge.

The United States is the only nation that provides conditional normal trade treatment to China. All our major trading partners provide permanent normal trade status to China. As a result, U.S. competitors in Europe, Japan, Canada, and Australia are increasingly viewed as more reliable, stable suppliers than the United States.

In addition to undermining U.S. commercial interests, the disruptive annual reviews under Jackson-Vanik have also impeded our efforts to build a stronger political relationship with China and achieve greater progress on a range of non-trade issues.

ECAT believes that it is clearly in our national interest to move beyond the annual renewal of normal trade status for China and to find a way out of the yearly debate. If the transfer of Hong Kong to Chinese sovereignty proceeds well and China is forthcoming in providing commercially satisfactory market access commitments in the WTO accession discussions, there may be a foundation for moving beyond the annual renewal process to permanent normal trade status for China. At a minimum, this year the Congress should not disapprove the continuation of China's normal trade status.

I appreciate the opportunity to present our testimony to the Committee.

Mr. HOUGHTON. Thank you very much, Mr. Cohen.

Mr. Howard.

STATEMENT OF JOHN HOWARD, DIRECTOR, INTERNATIONAL POLICY AND PROGRAMS, U.S. CHAMBER OF COMMERCE

Mr. HOWARD. Thank you, Mr. Chairman.

The U.S. Chamber of Commerce believes that the national interest requires renewal of China's MFN status. In 1996 alone, U.S. companies exported nearly $12 billion in merchandise to that country. Every single State of the Union benefits to some extent from trade with that country; last week, we provided each congressional office with details on your State's exports to China.

Not only do total U.S. exports to China generate—or support, rather—over 170,000 high-wage jobs in a variety of high-value-added sectors, but many thousands of additional jobs in both the import and export sectors depend on retail, transportation, shipping, and other services related to China trade. All of these jobs would be at substantial risk if China's MFN status was ended.

I will get more into what MFN really means shortly, but first I want to make the point that China-U.S. commerce is not just the exclusive concern of big business in America, important though that is. As you know, small- and medium-sized businesses represent the bedrock of U.S. Chamber membership and they, too, have a significant stake in China-U.S. commerce.

As part of its continuing efforts to strengthen U.S.-China commerce, in February the U.S. Chamber launched a nationwide survey of small- and medium-sized companies that export to and invest in China. The primary objectives were to determine the types of small- and medium-sized companies that do business in China, the factors contributing to the growing importance of the Chinese market, the constraints that may decrease business opportunities, and the impact of U.S. Government assistance and policies on business.

Over 200 companies responded to our survey, and 57 organizations, including many State and local Chambers, helped facilitate the survey's distribution. The results of the survey were released at a press conference at the U.S. Chamber headquarters this morn-

ing, and I would like to take this opportunity to share with you some of the findings of this project.

[The information is being retained in the Committee files.]

First of all, as I said a minute ago, the survey verified that U.S.-China trade is not the exclusive province of large multinationals. Small business and medium-sized business also has a big stake in that country.

All of the companies whose responses were included employ 2,500 or fewer employees. Indeed, nearly half of the responding companies employed fewer than 50 people; and all responses from companies with 2,500 or fewer employees were included in our results.

These companies are not newcomers to the Chinese market either. Half of the respondents had been involved in China one way or the other for 5 years or more and, indeed, 28 percent had been there for over 10 years.

Second, our survey revealed that small business has a long-term and optimistic view of the Chinese market. As I just said, 50 percent of the responding companies had more than 5 years of experience in the Chinese market, and over two-thirds of them characterize their experience in China as successful or very successful.

Third, small businesses are driven to the Chinese market by many of the same considerations that drive those big multinationals. The size of the market, its potential for growth, its openness, the relative predictability of government decisionmaking, the level of political risk or lack thereof, and the strength of local and foreign competition: these are major factors that determine or drive the decision by small business to go into that market. In particular, the size and the huge growth potential of the Chinese market was cited as a very important factor in doing business there.

But it is also important to note that the state of U.S.-China relations was also cited as a key factor in the confidence of companies to do business in that market. Small- and medium-sized businesses are clearly adversely affected by the annual debates that we have on whether or not to renew China's MFN status.

In addition to the market potential, the survey did reveal a number of challenges that small businesses face. And many of these observations confirm that small business has a clear stake in the process involving China's accession to the WTO.

Many companies reported having difficulties with inconsistent rules, regulations, transparency, and difficulties in enforcing contracts. Other problems they identified include the privileged position of Chinese companies that have special relationships to powerful government entities, deficiencies in the legal structure, difficulties in importing and exporting, and high tariffs. Import restrictions and licensing requirements are also seen as problems, as is intellectual property.

All of these challenges require continuous attention by U.S. officials as they negotiate with China on our behalf, either bilaterally or in the context of WTO accession. The solutions are indicative of the kind of commitment China must demonstrate before the Chamber can support its accession to the WTO.

Continued MFN status not only provides the critical underpinning between our two countries; it is also critical to sustain U.S.

influence, our ability to obtain solutions to these problems as well as to advance the cause of economic, political, and religious freedom in China. And it is the underlying foundation upon which additional progress on WTO and other obligations can be achieved.

Let's be clear what MFN is and is not. "MFN" is a misnomer because there is nothing "most favored" about it. As has been said repeatedly, and as is increasingly understood, MFN is the normal tariff treatment the United States provides to all but a handful of its trading partners. As such, it is a fundamental and necessary component of commerce within the global economy.

Neither the United States nor any other nation can afford to reject this reality as it relates to the world's largest nation. No other nation is contemplating such rejection. As I said earlier, billions in trade and thousands of jobs depend on commerce with China.

But support for China's MFN status does not suggest uncritical approval of China's policies or practices. Various U.S. trade laws, and continued engagement with the leadership there, provide ample opportunities to challenge those policies and practices we don't like. However, to terminate a fundamental commercial relationship recognized worldwide as normal is to cast doubt on the reliability of the United States, to harm the progress we profess to support, and, ultimately, to hinder U.S. objectives across the board.

Thank you, Mr. Chairman, for hearing our views.

[The prepared statement follows:]

Statement of John Howard, Director, International Policy and Programs, U.S. Chamber of Commerce

Mr. Chairman, I am John Howard, Director of International Policy and Programs at the U.S. Chamber of Commerce. I appreciate this opportunity to present the U.S. Chamber's views on U.S. trade relations with China and the renewal of China's most-favored nation status.

At the outset, Mr. Chairman, let me state that U.S. Chamber members are very interested in China's market. China's economy has experienced explosive growth in recent years, and the future potential is staggering. The estimates of China's infrastructure requirements and the potential of a huge market helped to make China the top international priority for many U.S. companies during the 1980s and early 1990s. Companies fear that they will miss the train if they fail to establish some sort of presence in the Chinese market, particularly given similar efforts by our European and other Asian competitors.

The U.S. Chamber has encouraged U.S. efforts to secure a fair share of that market through bilateral initiatives to improve market access. We have worked to facilitate business development at the business-to-business level. We have worked to increase public understanding of the commercial opportunities in China. In January 1997, the U.S. Chamber launched a multi-year education campaign to build domestic support for international trade. Armed with its extensive grassroots network, the Chamber is drawing on its state and local chamber of commerce affiliates as well as its small and medium-sized businesses to advocate such policy issues. This year, our focus has been on the U.S.-China commercial relationship.

The U.S. Chamber supports:

- permanent and unconditional extension of Most Favored Nation (MFN) trading status for China;
- China's entry into the World Trade Organization (WTO) on commercially viable terms; and
- removal of unilateral economic sanctions against China.

U.S. CHAMBER SURVEY: SMALL BUSINESS SPEAKS OUT ON INVESTMENT AND TRADE OPPORTUNITIES IN THE PEOPLE'S REPUBLIC OF CHINA

Small and medium-sized businesses represent the bedrock of U.S. Chamber membership. As part of its continuing efforts to strengthen China, the U.S. Chamber conducted a nationwide survey of small and medium-sized companies that export to or invest in China. The primary objective was to determine the types of small and

medium-sized companies that do business in China, the factors contributing to the growing importance of the Chinese market, the constraints that may decrease their business opportunities, and the impact of U.S. Government assistance and policies on their business.

Over 200 companies responded to our survey and 57 organizations, including many state and local chambers, helped facilitate the survey distribution. The results of the survey were released at a press conference this morning and are attached to my testimony, I would like to take this opportunity to share with you some of the findings of this project.

First of all, the survey verified that U.S.-China trade is not the exclusive province of large multi-national companies; small business has a big stake in China. Indeed, nearly fifty percent of the responding companies had fewer than 50 employees. Secondly, our survey revealed that small business has a long-term and optimistic view of the China market. Fifty percent of the responding companies have more than five years of experience in the Chinese market and over two-thirds of the companies characterized their experience in China as successful or very successful. Third, small businesses are driven to the Chinese market by considerations similar to those of multi-nationals. The size and huge potential for growth of the Chinese market was cited as a very important factor in deciding to do business in China.

But it is worth noting that the state of U.S.-China relations was cited as a key factor in the confidence of companies to do business in China. Small businesses are adversely affected by the annual debates on whether to renew China's MFN trade status. In addition, despite the market potential, China remains a challenging place for small business; the survey confirms small business has a stake in China's WTO accession. Many companies reported having difficulties with inconsistent rules, regulations, transparency, and difficulties in enforcing contracts. Other problems identified include the privileged position of Chinese companies having special relationships to powerful government entities; deficiencies in the legal structure; difficulties in importing and exporting goods from China; and high tariffs. Import restrictions and licensing requirements are also seen as significant barriers for small businesses. Finally, protection of intellectual property remains a problem.

For these reasons, the U.S. Chamber actively supports efforts to create and sustain a stable commercial environment in China that will make it possible for U.S. firms of all sizes to compete and prosper. This is a big challenge that requires action on every possible level. At the multilateral level, U.S. Chamber members have strongly supported the Administration's firm and judicious position on the terms of China's accession to the World Trade Organization (WTO). Those negotiations represent our most important opportunity to secure strong multilateral discipline in one of the world's fastest-growing trading nations.

At the bilateral level, we continue to support the efforts of our government to improve transparency, rule of law, intellectual property rights protection, and market access in China. U.S. business leaders seek opportunities for dialogue directly with policy makers in China, through organizations such as the American Chambers of Commerce in Beijing, Shanghai, Hong Kong, and in fora such as our meeting today with Vice-Minister Long Yongtu of China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC), China's Chief Negotiator on the WTO. Business-to-business conferences can also be of great importance in opening up market opportunities in China.

U.S. policy on China should be based on a clear-headed awareness of China's future role in global markets. Recent growth has been fueled by an explosive surge in exports, especially to the U.S. market. Our bilateral trade deficit has grown steadily in 1990's, to a total over $35 billion in 1996. Nevertheless, despite the overall deficit, American policy toward China must continue to rest on a clear view of our long-term interests. We should recognize that expansion of our commercial ties with China is vital to America's future.

RENEWAL OF CHINA'S MOST FAVORED NATION STATUS

On May 29, 1997 President Clinton decided to request a renewal of China's MFN status. In taking this action, the President appropriately recognized that the United States should pursue a policy of "engagement" with China that advances long-term U.S. commercial, strategic, and national security interests.

The U.S. Chamber strongly supports permanent and unconditional extension of China's MFN status. MFN is the routine, nondiscriminatory tariff treatment enjoyed by over 100 countries, including many countries with whom we have major trade or foreign policy differences comparable to those we have with China. Only a few nations have ever been denied MFN status. Instead of using China's MFN status as a means to "send a message," the United States should continue the policy

of comprehensive engagement with China which recognizes our vital interest in maintaining regional stability, preventing weapons proliferation, fostering democratic ideas and working towards fair and free trade.

Expanding U.S.-China trade is in America's national interest. Last year, the United States exported approximately $12 billion in goods and services to China. These exports supported approximately 170,000 high-wage American jobs. U.S.-China trade also supports tens of thousands of jobs at ports, retail establishments, and consumer good companies. China is a crucial market for American farmers. In 1996, China bought over $1.9 billion in U.S. agricultural products, making China the sixth largest export market in the world for American farmers. Moreover, according to World Bank estimates China must invest over $745 billion in infrastructure development over the next decade. As China embarks on its massive infrastructure program, it will spend billions of dollars in sectors in which U.S. firms are very competitive. Over the next decade, China will be an important market for U.S. Chamber members that export high technology equipment, aerospace, telecommunications, petroleum technology, agricultural products and consumer goods.

American consumers and small shop owners also benefit from trade with China. Without MFN, tariffs on about 95 percent of U.S. imports from China would dramatically increase by 30–50% or higher. Revoking MFN status would have a disastrous impact on small and medium-size American companies who sell consumer goods in such areas as men's trousers, sweaters, silk blouses or tops, footwear, radio/tape players, toys, and electric hair dryers.

Withdrawing MFN would put American trade and jobs at risk. If China were to lose MFN status, China would certainly retaliate against U.S. exports, putting at risk billions of dollars of U.S. sales and thousands of American jobs. Even limited sanctions linked to Hong Kong or improvement on human rights would endanger economic ties between the two countries. This would place U.S. companies at a competitive disadvantage, since none of China's other major trading partners imposes such conditions on trade.

Clearly, our growing economic cooperation with China has fostered dramatic economic reforms, and strengthened voices in China calling for political reforms. U.S. Chamber members help to promote fundamental rights wherever they operate by establishing benchmarks for corporate practice in such critical areas as personnel management, corporate citizenship, fairness and equal opportunity. U.S. Chamber members have been, and will continue to be, forces for positive change in China.

Some critics argue that by renewing China's MFN status, the United States ignores China's human rights record. The U.S. Chamber supports the fundamental principles of human rights in China and throughout the rest of the world. Removing MFN, however, will not lead to progress on human rights. It would erode our economic relationship, harm those forces in China which are most sympathetic to political reform, and isolate pro-American Chinese officials, and put more power into the hands of hard-liners who favor stronger government control. The best way for the United States to see a prosperous, free China is for U.S. companies to stay commercially engaged.

Moreover, despite problems, particularly with the imprisonment of political dissidents and suppression of religious freedoms, China is a lot better off than 20 years ago. The Chinese people have experienced vast and on-going improvements in economic freedom, living standards, access to information, and political expression since relations were normalized. Individual Chinese are now free to choose their place of work, seek out new entrepreneurial opportunities, watch foreign television programs, and read Western magazines and newspapers.

Broadening and expanding U.S.-China commercial ties is also the best way to secure Hong Kong's future. The U.S. Chamber of Commerce believes that the transfer of power in Hong Kong to China on July 1, 1997, would be best served if Hong Kong remains a market environment characterized by open competition. It is of vital importance to the U.S. business community that Hong Kong's position as a center for international business and finance be maintained. The U.S. Chamber supports adherence to the Sino-British Joint Declaration and Basic Law, which in 1984 spelled out the terms in which governance of Hong Kong would be transferred from Great Britain to China. We believe that faithful implementation of the Joint Declaration's formula of "one country, two systems" will not only strengthen U.S. business confidence in Hong Kong and China but will likely strengthen U.S.-China relations.

Furthermore, linking China's MFN status to Hong Kong's future will hurt not help the people of Hong Kong. Hong Kong's prosperity is built on trade with China, and its role as an Asian commercial and financial center is linked to China. As Governor Patten has pointed out, "imposing conditions or time-limits on the renewal of China's MFN trading status, particularly conditions which were either directly or

implicitly linked to developments in Hong Kong, would jeopardize rather than reinforce Hong Kong's way of life."

Revoking China's MFN status would also hurt Taiwan, another important ally in Asia. Taiwan's economy and security would be damaged by any U.S.-China commercial conflict. Taiwanese companies have invested over $25 billion in China. Conflict between the United States and China could destabilize the Taiwan Straits, and threaten Asian regional security.

CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION

Let me now turn my attention to China's efforts to join the World Trade Organization (WTO) and, in so doing, obtain access to its dispute resolution procedures and other benefits. China's bid to join the WTO represents an important opportunity to secure strong multilateral discipline on one of the world's fastest growing trading nations. The commitments made by China in the WTO accession negotiations will demonstrate how far China is willing to go to open its markets to foreign goods and services. If China makes good on commitments to build a modern trade regime that would qualify it for WTO membership, it will gain the respect of the international business community.

Mr. Chairman, we also believe that the integrity of the WTO system is also at stake in China's WTO negotiations. Final accession terms will doubtless be used as a benchmark for accession negotiations for Russia, Vietnam and other economies that are still in the early stages of a difficult transition from a centrally planned to a market economy. Each of these countries, including China, will be tempted to reverse market reforms in the face of political or economic uncertainties that are virtually certain to occur in the process of market transition. As a consequence, we believe that the terms of WTO accession should be defined carefully to ensure that reforms in international trade policies are secure from threats to the reform process.

The U.S. Chamber understands that one of China's top trade priorities is to become a member of the WTO. The U.S. Chamber fully supports China's accession to the WTO but only under a protocol consistent with its status as a major trading power and adherence to the market principles assumed of all WTO signatories.

China's huge trade surplus with the U.S. is second only to that of Japan and is growing at a faster rate. As mentioned above, U.S. products face formidable market barriers in China. The present commercial environment in China makes it difficult for U.S. companies to compete and prosper. China must take concrete measures to open its markets to foreign goods and services. At the same time, China needs to make additional progress on providing intellectual property protection and trading rights for American goods and services. China must also demonstrate that it will not use the WTO to reverse market reforms.

The U.S. Chamber is encouraged by China's offer on trading rights and efforts to improve intellectual property rights in China. But these efforts alone will not make it possible for U.S. companies to compete and prosper. In our view, there remain a number of critically important commitments China must make before the U.S. Chamber can support China's accession into the WTO. These include China's commitment to:

- bring its trade regime into conformance with WTO Agreements and Disciplines;
- extend national treatment on all goods and services to foreign companies that want to invest in China;
- extend MFN trade status to all WTO signatories who extend such treatment to China;
- sign the WTO Government Procurement Code;
- provide market access for textiles and agricultural products (where China uses standards and certification requirements as barriers to trade);
- reduce export subsidies;
- ensure protection and market access for U.S. intellectual property goods and services;
- liberalize access to its foreign exchange system for foreign exporters and investors;
- apply the provisions of the WTO uniformly throughout China; and
- eliminate all restrictions on who may import or export products or services from China.

We recognize that one of the principal issues between China and the United States, in terms of WTO membership, is over whether China should be admitted as a developing or developed nation. In some areas, China may deserve some latitude in making the transition to a market economy. However, the United States must insist that China adhere to basic WTO obligations, take "significant" steps forward on market access for goods, services, and agriculture, and agree to apply inter-

national trade rules and disciplines. And we are concerned that China has shown a reluctance to engage in serious negotiations on fundamental issues such as transparency of its regime, uniform application of trade rules and trading rights. We strongly believe that until the Chinese make concrete commitments, the U.S. Chamber cannot support China's membership in the WTO.

CONCLUSION

The U.S. Chamber strongly supports permanent extension of MFN status to China. Extending permanent MFN status to China would strengthen U.S.-China commercial ties to the benefit of American business and workers. It would also provide a positive basis for U.S.-China dialogue on human rights, weapons proliferation and security matters, and strengthen cross-cultural ties and awareness of American cultural and political values.

The U.S. Chamber also believes that a great deal hangs on the multilateral negotiations with China. China is the largest country in the world and the terms of China's accession must expand market access for U.S. companies; strengthen China's commitment to the rule of law; strengthen protection of intellectual property rights; and reflect a commitment to apply market rules and fair competition in accordance with the WTO and its economic stature.

Mr. Chairman, this concludes my formal presentation. I would be happy to respond to any questions you might have.

Mr. HOUGHTON. Thank you very much, Mr. Howard.

Mr. Williams.

STATEMENT OF JIM WILLIAMS, GENERAL MANAGER AND CONTROLLER, OHSMAN & SONS CO., CEDAR RAPIDS, IOWA

Mr. WILLIAMS. I was going to say "good afternoon," but it is almost evening, Mr. Chairman. My name is Jim Williams, and I am the general manager——

Mr. HOUGHTON. You can say "good evening," also, if you would like.

Mr. WILLIAMS. Good evening and good afternoon.

When we came back from the break, I was also going to give my condolences to the Representative from Minnesota, my neighboring State. I thought he pulled a short straw and was stuck with the end of this, but I guess you did.

To continue, as I said, I am general manager and controller of——

Mr. HOUGHTON. Let me just interrupt a minute.

You know, I don't know about you. But I was in business for 35 years, and my life has not been the same since I came down here to Congress. Democracy is not business; it is a sloppy, messy process. But that is the way we get through things. And I am terribly sorry that we had to leave to go to the White House and then come back. I really appreciate your patience.

Mr. WILLIAMS. It has been very educational, my day down here, I must say.

As general manager and controller of Ohsman & Sons, I am a member of the local Chamber of Commerce in Cedar Rapids, Iowa, although I don't represent them here today. And it is just an honor for me to be here and address you.

In order for you to get a little better understanding of my comments, I would like to give you a little background on the company and myself.

Ohsman & Sons Co. buys and sells cattle hides, cow hides, wool, and furs. Mike Ohsman, our current president, is the fifth generation of the family to head the company. We will buy from an individual farmer who slaughters his own animal. We will buy that skin as well as from trappers—whether they be young kids or professional-type trappers—and also large corporations that you are aware of like IBP, National Beef, and Excel.

We sell to American companies that are making leather, and we also export these American products to countries all over the world. And our exports have changed, as someone else mentioned. As the markets change and move from one country to another, we follow with American products.

I believe it was the Trade Representative who said that the shoe industry, shoe manufacturing, has moved from Korea and Taiwan to China. So we follow it into China. And to be very honest, we don't like some of the barriers that our government puts up, such as this debate about MFN.

We do practice good American business: In 1991 our company received the President's E Award for Experience; I thought you just had to sell a lot to receive it. I didn't realize that we had to be investigated by the FBI, the Department of Commerce, and everybody else to make sure we were a good representative over there.

Personally—I am originally from Chicago. You can pass that on to your Chairman, that I am a fellow Chicagoan. Maybe that is why I am speaking the way I am.

I have served as chairman of the International Trade Bureau in Cedar Rapids, which is comprised of everything from one-man companies trying to do business internationally to companies like Rockwell International which are selling the avionics that are going into the Boeing aircraft being sold in China.

I have traveled around the world extensively in the Far East, in Europe, and South America including several visits to mainland China. Primarily all these trips were for the purpose of doing business—for profit—which I don't think a lot of people wanted to hear today.

I made my first trip to China right after the Tiananmen Square incident, and now we have sales of about $2 million a year, plus or minus, depending on what their requirements are. I see an enormous potential in China for American products—not only the agricultural products but all of the products in there.

There are basically two issues that I would like to address here. One is this most-favored-nation status.

First, I want to strongly suggest that we not put us—the American people and the Chinese people—through the torture and agony of debating on an annual basis whether to grant this most-favored-nation status with China. I suggest we grant them a permanent and unconditional extension of this MFN status. I think this is in all of our best interests.

On the subject of accession to the World Trade Organization, I think we have to take a little different stance and say, OK, we recommend this but they have to play by the rules.

You can look through my written paper here and get some definite verbiage, but I want to make a few comments from it in the time allotted here.

If we do not grant this MFN status and we have these debates every year, it costs American companies and, ultimately, the American public money. Because what happens is that those of us engaged in international trade delay doing things, so we delay placing orders for Chinese goods. The Chinese delay placing orders for our goods. And, all of a sudden, we have a bottleneck with the shipping in there. Freight rates go up, because the freight rates on the steamship lines go up. Prices then go up, to the detriment of both the American consumer and the Chinese consumer.

Other people ask me, Well, how does what is happening in Washington, DC, affect you when you go to China? Well, what happens is, you sit down with someone you are going to do business with. After the first few lines of conversation, someone on their side will be a little bit aggressive and say, Why is your government doing this to us? Why does your government not want us to have MFN status when you give it to other countries? Why do you treat us like an enemy? Year after year after year you put us through this.

An analogy that one of my customers gave me was that if you have a good business relationship, you don't constantly ask for credit reports on that customer; you go on with the business. I think extending the MFN status would be a win/win situation for the greater benefit of American business, its workers, and the consumer public.

This MFN status does support many American jobs. And don't ask me how many jobs; I am a controller of a company. We balance our books and we pay our taxes. I heard more different numbers here today about the number of jobs involved, the number of this, and number of that. As you said, Congressman, I guess this isn't business where you get accurate numbers from all quarters.

Having spoken a little bit about this annual debate on most favored nation, I would like to talk about accession to the World Trade Organization. This is a little different ball game, as I said. In this case, I strongly suggest that, yes, we support China in the World Trade Organization, provided that China plays the game by the rules—and not only plays the game by the rules, but has some referees to enforce the rules in their country.

People talk about China being an underdeveloped country. I don't think it is. It is a major trading country. I think we have to do all we can to establish good trading relationships.

I want to close with a comment that I wrote on the written statement that I would hope the Congressmen who aren't here might read when they have time: Let's not close the door to China that President Nixon opened up 20 years ago, a door that I think President Clinton wants to keep open. But, rather, let's lubricate the hinges on this door by granting permanent MFN status to China. In this way, American business can march through the door and then, once comfortably inside, move on to the task of doing other things that will profit both the United States and China.

While I sat here, since before 10 this morning, I made a few notes that I would like to relate, as these were not in the official statement that I submitted.

The question was raised about whether trade was important. Somebody talked about the balance of trade payments. Well, in our business we say that if we buy first from a prospective customer,

then that customer should have made a profit, and they will then be able to buy our products.

Our company has specifically bought products from Romania in hopes that the Romanians would have money to buy some American products, and, in fact, they did buy some.

One of your cohorts, a congresswoman, said there were not enough jobs created in the United States for the size of the China market. Well, it is kind of difficult for us to increase the employment in the United States with jobs that are based on business with China when we constantly have roadblocks thrown up to increasing this business.

And since this is a political thing, I had another thought. People need money to support good politicians so that good politicians will pass these laws that I have heard many of the panels talk about for human rights and these types of things. And the way that people get more money to contribute to good politicians is through trade and business. I guarantee you that if we improve the economic status of the Chinese, they will take some of that money and use it to change their political situation.

Another comment I have is——

Mr. HOUGHTON. If you could really do this pretty fast, the reason being that we have got a series of votes. I know we have held you and I know it is inconvenient, but we have got a series of votes starting at 5. I would like to have another panel come up. So just as fast as you could wind up, I would appreciate it.

Mr. WILLIAMS. OK. I will close with this: I was very surprised to hear in this session that MFN was a device to send messages about various issues—religion, pro-life, school vouchers, and that. I would suggest strongly that we concentrate on the idea that this is a business forum, not a forum to try and solve all the problems of the world.

Thank you, sir.

[The prepared statement follows:]

Statement of Jim Williams, General Manager and Controller, Ohsman & Sons Co., Cedar Rapids, Iowa

Good afternoon, Mr. Chairman. My name is Jim Williams and I am general manager and controller of Ohsman & Sons Company in Cedar Rapids, Iowa. I am also a member of the U.S. Chamber of Commerce. It is an honor and privilege for me to be able to visit with your subcommittee today.

In order for you to have a little better understanding of the basis for my comments on why small business people like me have a stake in healthy commercial relations with China, I would like to give you a bit of background on my company and myself.

Ohsman and Sons Company buys and sells cattlehides, wool, and furs. Mike Ohsman, our president, is the fifth generation of the Ohsman family to head the company since 1891. We buy from individual farmers, trappers, and also from large corporations like IBP, National Beef. We sell to American companies and also export American products to tanneries all over the world. In 1991, we received the President's "E" Award for excellence in exporting.

I am originally from Chicago, have served as Chairman of the International Trade Bureau of the Cedar Rapids Area Chamber of Commerce, and in connection with my job at Ohsman's, have traveled extensively throughout Europe, the Americas, and the Far East, including several visits to Mainland China.

I made my first business trip to China for Ohsman and Sons Company back in 1989, and we now have annual export sales to China in excess of $2,000,000. As a small businessman engaged in trade in agricultural products, I can see the enormous potential of the China market for U.S. agricultural goods. In 1996, U.S. agricultural exports to China totalled $1.9 billion. Small businesses like Ohsman and

Sons Company have much to gain from greater access and increased exports to the Chinese market.

There are two basic issues that I would like to take up with this distinguished group on behalf of the American small business community. First is that we strongly suggest that you not put us, the American business people, and the Chinese people through the torture and agony of debating on an annual basis whether to grant Most Favored Nation (MFN) trading status to the People's Republic of China. We should grant permanent and unconditional extension of MFN status to China. This is in our national interest and in the interest of small businesses like mine. Second, I have a few opinions on the subject of China's accession to the World Trade Organization on commercial terms that will make it easier for businesses like mine to export to China.

As for my suggestion that the United States grant permanent and unconditional MFN status to China I want to make the following points:

MFN does not give China any special status. All of our major business partners like Canada, Japan, Mexico, and virtually all of the countries of the world enjoy MFN status.

More importantly, the annual China MFN debate costs Americans companies and ultimately the American public real dollars. When China's MFN status is unclear, U.S. companies hesitate to order needed and wanted goods from China. U.S. companies delay the orders, the steamship lines suffer for lack of cargo during the time of the debates, and then, when MFN status is granted, there is a great demand for space on the ships, not only from China but from all ports in Asia and Southeast Asia. Freight rates go up, consumer prices are raised, there are delays in moving cargo and virtually everybody loses.

This annual debate also hinders small businesses like ours that are trying to establish good relations with our trading partners. How do we answer the questions like "Why is your government doing this to us? Why does your government want to do something like this when MFN status is good for both of us and moreover for the individual citizens of both countries? Why is your government treating us like an enemy? Why do we get this poor treatment year after year?" Yes, they do take it personally! Countries and individuals that have good trading and business relationships are friends, not enemies.

Extending permanent MFN status to China will be a win-win situation for the greater benefit of American business, its workers, and the consumer public, as well as for the quicker improvement of conditions in China for all of its people. How can we expect China to evolve into a more free, open market economy if we constantly, year after year, threaten them with removal of MFN and the availability of the United States as a good trading partner?

China's MFN status supports the hundreds of thousands of American workers and entrepreneurs who are exporting American goods and services to China. MFN status will help China become a free market economy for the benefit of the 1.2 billion people in China in every walk of life. The United States can show the world that we believe in free enterprise for all countries, and that when business is good between countries, it creates a positive climate for dialogue on the full range of bilateral issues between them.

Having explained why I think permanent MFN status for China is in America's interest, I would like to briefly address China's accession to the World Trade Organization (WTO).

While Most Favored Nation status basically means that the United States will treat all trading nations equally in the matter of tariffs, accession to the World Trade Organization involves much more—namely, agreeing to play the game of international commerce by well-established, defined, and enforced rules.

China, in my opinion, is not in any way a 'developing' nation, but rather one of the world's greatest countries in terms of the size of its economy. China is a huge industrial nation, one that has done an admirable job of providing not only the basics of food, clothing, and shelter to its citizens. China has developed enough infrastructure to now be in a position where it has a huge trade surplus not only with the United States, but also with many other countries.

China is a major trading power in the world today, but it is not behaving as a good major trading power should. China must do much more to open its markets to American goods and services, and must agree to not only play by the established international rules but also enforce them within China. Some of these international rules apply to such things as agricultural products, financial services, intellectual property rights, and non-tariff barriers to trade.

I am confident that all of you have been bombarded with information regarding the specific commitments, such as bringing its trade regime into conformance with all WTO Agreements and Disciplines, applying WTO provisions uniformly through-

out all areas of China, etc., that American business strongly believes are necessary in China's bid to become a founding member of the World Trade Organization. I want you to be aware that small businesses like mine have a huge stake in the terms of China's WTO accession.

In summing up, I would like to relate a few things that I consider important to keep in mind as you deliberate the two topics I have briefly discussed.

I'll start with China's MFN status. It's important to our company so as to alleviate the shipping problems we incur; it's important to my City of Cedar Rapids, where we have many companies doing business with China, both in agricultural food products and sophisticated manufactured products; and it's important for the State of Iowa, which exported over $24 million dollars of goods to China in 1996. It's also important to all of the free world that we help China become a responsible world citizen by establishing good trade relations. By taking this first step, granting permanent MFN status to China, we will be setting the stage for further improvement in China's behavior in other areas of concern to various segments of our population.

We should strive to establish a good trading relationship with China by ensuring stability in U.S.-China relations. This means securing permanent MFN status for China, if not this year, then as soon as possible. And, it means dealing with the challenge of getting China to open up its markets and abide by the international rules of conduct incorporated in the World Trade Organization. This will enable U.S. companies of every size and from every state to profit from good trading relationships with the world's largest emerging market.

If we don't follow this two-step course of action I have suggested, I'm afraid that U.S. small businesses like ours will be losing important opportunities. It will also jeopardize the jobs of hundreds of thousands of American workers who are in export-related jobs and hundreds of thousands of American farmers who have provided billions of dollars of American farm products to China. In short, we will be abandoning this vast China market to other countries like Japan, the European Community nations, and the competitive industrial nations in Latin America.

Let's not close the door to China that President Nixon opened over 20 years ago, a door that I think President Clinton wants to keep open, but rather let's lubricate the hinges by granting permanent MFN status to China. In this way, American business can march through the door, and then, once comfortably inside, move on to tackle the task of making a profit in China.

Thank you for your attention, and if you have any questions or want to discuss any of my experiences in China, I will be pleased to respond.

Mr. HOUGHTON. OK. Thank you very much, Mr. Williams.

Mr. Kapp.

STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL

Mr. KAPP. Thank you, Chairman Houghton. I am delighted to be back before you this year on behalf of the United States-China Business Council, which, as you know, is the principal organization of American companies engaged in trade and investment with the PRC.

I feel your pain as we go through this long day, and I will keep my remarks brief. Indeed, when the light turns red, I will give the next panel a chance to go forward.

I am also going to be rather blunt, because so many people have already said things that I would otherwise have said earlier in the day.

On the matter of sending messages, sir, I think that we need to recognize that the whole concept of sending messages is a kind of a beltway phenomenon, the best we can do when we cannot show that our actions are directly linked to consequences. So we say, Let's send Bill Clinton a message! Let's send the Chinese a message! Let's send people in the other part of our party a message!

My feeling is that the whole business of taking the China MFN issue and turning it into an endless series of sending messages, from one sender to one receiver, all around the American political system, is an exercise—a futile and bankrupt exercise.

In a much more inflammatory paper that I wrote for a Pacific Northwest newspaper op-ed column that I would never submit to the Congress, I put it this way:

"The annual dogfight over normal tariffs on Chinese imports is an exercise in American narcissism, histrionics and self-deception. When the United States finally comes to its senses on this and puts the annual MFN review out of its misery, we will wake up to discover that we are in a far better position to engage China seriously over areas of significant disagreement than we were with the yearly mudfest perpetually pending."

I frankly think that the whole notion of using this as a way of "sending messages" is simply inadmissible. The message that the Chinese are getting is that we go through the exercise every year and nothing happens. What kind of message is that?

Now let me move on in an equally friendly vein. I think the notion of turning the MFN vote into a litmus test of the moral integrity of individual Members of Congress is absolutely astounding. To say to a Member of Congress—as many Members have told me they have themselves been told—that their vote on a tariff measure on Chinese imports is a measure of their commitment to their most fundamental moral beliefs is an extraordinary, heavy, and unacceptable burden to place on individual Members of Congress, whose integrity is not in doubt.

On the matter of the "exporting elite," Mr. Howard and the Chamber have spoken well. I have sat down over the last few months at the Internet and have pulled hundreds of examples of little American companies that no one has ever heard of, in towns that no one has ever heard of, that are doing business with China and have put the good news out over the Internet.

This is simply not a creditable charge. In this particular year, the American business community, more than ever before, has been subjected to a variety of charges. The "exporting elite" argument that China trade all belongs to big multinational corporations is unsupportable.

At bottom, what we have here, as we had even in the fifties, is the attempt to transform an issue of China policy into an issue of good and evil within the American domestic political system. I will read a little bit from another piece:

"Because this humble tariff measure is a no-brainer, those with other agendas have loaded it down with simply unbearable burdens of ideological freight. The beauty of this is that the longer the message goes unreceived or unanswered—that is, the longer the message generates fewer or no identifiable positive results—the more loudly one can claim that the message needs to be sent again and again and again."

Let me move a little further in this. The second point I made on this other paper is that China does not belong to the United States.

"Some may wonder why it is that 9 years after the tragedy of Tiananmen all the fury and posturing and litmus testing and apocalyptic rhetoric of the annual MFN fiasco have done so little to

make China behave the way we want it to on the things that inflame many Americans about the People's Republic.

"The reason is that China is China. It is gigantic. It is heavy. It is unwieldy. It is hard to govern, hard to modernize, hard to hold together. It has five times the U.S. population on about the same amount of space and much, much less food-producing land. It has a 5,000 year history, the last 200 of which have seen nearly continuous institutional collapse, political chaos, famine, epidemic, foreign invasion, civil war and Maoist tyranny.

"About the inner workings of this distant, culturally distinct problem and tumultuous society, Americans have never known very much. It is its own. However imperfectly by Chinese or our standards, it governs itself and guards its sovereignty to an extreme degree. It is not ours to govern.

"When the MFN ritual begins each spring, partisans to the struggle don't waste time discussing where China has been and how far it has come. Forget about the massive economic improvements since reforms began in 1978. Forget about the beginnings of electoral choice in China's million-odd rural villages for the first time in history. Forget about the banishment of mass state-inspired political violence since 1979, the vicious class struggle violence that was a staple of the Maoist regime for 3 decades after the People's Republic was created in 1949.

"Forget about China's remarkably constructive participation in a range of global and multilateral bodies to which it was utterly foreign before the late seventies. Forget about the ins and outs of China's murky leadership politics. In other words, forget about anything in China that requires serious analysis. Forget about it all. It doesn't matter.

"MFN is, after all, an American issue, debated among Americans. The best way to debate it is to focus on U.S. good guys and bad guys. Make the tariff decision on Chinese imports a litmus test of the ownership of America's soul."

Mr. Chairman, until we get beyond this annual MFN debate—and as it is Congress' problem, and it is Congress' problem to resolve—we will be stuck in this cycle that I have tried to describe here.

It does us no good. It certainly does the people of China no good, as my written testimony attempts to show by quoting from utterly impeccable religious and educational sources who call for MFN to be maintained because of the damage it would do for us to cancel it. Until we get out of the annual MFN imbroglio, we are going to be stuck in this cycle, focused on our own good guys and bad guys, our own heroes and villains, to no particular result.

I urge very strongly that you and this Subcommittee take the lead in moving the congressional discussion beyond annual MFN as rapidly as possible. Thank you.

[The prepared statement follows:]

Statement of Robert A. Kapp, President, United States-China Business Council

I. INTRODUCTION

Thank you for providing me the opportunity to testify before you this year on the question of continued normal trade relations between the United States and our fourth-ranked trade partner, the People's Republic of China. I am Robert A. Kapp, president of the United States-China Business Council. Founded in 1973, the Council is the principal organization of American companies engaged in trade and investment with China. We are a private, nonpartisan and nongovernmental association, supported by three hundred member corporations of all sizes representing a broad spectrum of U.S. economic interests and geographic regions. Prior to serving the US-China Business Council, I earned a Ph.D. degree in the history of Modern China, and taught modern Chinese studies at Rice University in Houston and the University of Washington in Seattle.

This is the fourth consecutive year that I have appeared before this Subcommittee on behalf of my Council's members, having joined the Council in the spring of 1994. In each of the preceding years, I offered to the Subcommittee comments focused on U.S. business activities with China, U.S.-China trade facts, the Chinese economic and business climate, and above all the historical and cultural realities that inform Chinese conduct today. I am happy to try to respond to all questions regarding U.S.-China trade and economic relations in the question period.

This year, however, as you know, the public and Congressional debate over maintenance of ordinary trade relations with China has taken a somewhat different turn, both substantively and politically. Since the House voted overwhelmingly in favor of continued normal economic intercourse between the U.S. and China last June, a cascade of new demands for destruction of the economic foundations of U.S.-China relations has emerged. From late February, when a flotilla of political attack magazines at both ends of the Washington political spectrum opened fire with their heavy guns on both MFN and their chosen U.S. political targets, using the China issue as their platform, the assault on normal economic relations with China has continued without letup.

Increasingly, demands for the dismemberment of U.S.-China reciprocal trade ties worth sixty billion dollars have asserted that Congress must raise import taxes on Chinese products to market-closing levels in order to demonstrate the ethical and religious integrity of its Members. MFN, in other words, has been declared a litmus test of Congress's moral fibre.

Thus, business has been told on MFN this year, Congress isn't interested in business. It isn't interested in trade. It isn't interested in economics. It doesn't want to hear tired old facts and figures about import-and export-related jobs for Americans, affordable consumer goods for low income Americans, massive market opportunities for U.S. producers, the danger of delivering American economic opportunities to foreign competitors, and so forth. It doesn't wish to spend its energy, we are told, on Asia-Pacific regional security issues where U.S.-China cooperation is vital, or China's growing significance in international organizations. This year, we are warned, business must reach out to Congress and speak to the MFN question in terms of values.

At the same time, those who slander business as "Beijing's best lobbyists" happily seek to disqualify those of us in the business community who have worked for ten, twenty, and thirty years in the Chinese environment in pursuit of economic and commercial progress from having any opinions on the MFN question, on the grounds that we lack standing in non-trade areas and are so obsessed with profit that we can have no credibility even in the trade sphere. "Profits vs. Morality" is the convenient catch-phrase wheeled out to declare the field of ethical concern off limits to those of us who believe in continued economic relations with China.

Mr. Chairman, American firms operating in China have compiled a more than creditable record of ethically responsible corporate behavior—within their workplaces, and within the Chinese society which has made their presence possible. We have argued for years that the presence of American firms on the ground in China is deeply compatible with widely-held American ethical convictions. I am happy to discuss this further with Members during question and answer.

Of course American private enterprises seek to profit in the China business field. They are businesses. They are not government agencies. They are not academic institutions. They are not churches. They are private enterprises, large and small. I have counseled my own business friends many times that it would be unwise for us to pretend to be what we are not, and that we should not portray ourselves first

and foremost as the moral or religious or political transformers that few companies try to be.

Nevertheless, at today's hearing, in light of this year's unique concerns, let me focus on the moral, ethical, and even religious implications of the issue before Congress this spring.

II. The Moral Implications of MFN's Preservation

The theme of my testimony today is that maintenance of normal trade with China—and thus of the lowest common denominator of civil U.S.-China relations across the full range of global and regional issues our two nations must manage together—is not only consistent with American national interests but is actively consistent with fundamental American shared values.

The destruction of that economic foundation, even if proclaimed to be a moral act, would in fact be ethically counterproductive.

For a morally-defined policy to be morally defensible, its advocates must consider the most likely real-world consequences of its implementation. Proclaiming a vote to be a moral act is not a moral act. The morality of one's legislative actions depends on the real-world results of their implementation: moral wrongs must, in fact, be righted.

There is simply no credible evidence to support claims that MFN cancellation will force the elimination of the human rights abuses or other aspects of PRC domestic conduct that have led some Americans to demand its destruction. Both the historical record and elementary common sense suggest something far, far different. What elimination of MFN and closure of U.S. markets to Chinese products would surely cause is a tit-for-tat closing of China's markets to American products and investments, with a resulting loss of thousands of American jobs and painful price increases to American consumers. Beyond that, the broad degradation of U.S.-China relations that would in all likelihood follow the breakdown of U.S.-China trade is utterly unlikely to have any positive effect on human rights and religious injustices within China; on the contrary, it is far more likely to compound them.

Instead of trade facts and figures, I urge Members to join in listening to the voices of a growing array of non-business people, not traditionally heard from in the annual MFN debate, who have responded this year to the attempt to turn this decision on tariffs into a moral litmus test.

I offer to you a brief compilation of excerpts from statements by people outside of the business world—evangelicals, scholars, Americans engaged in orphanage and adoption service work, distinguished Chinese political dissenters. These voices do not control media networks. I suspect that few among them know the term "blast fax," the electronic messaging system that keeps Congressional fax machines running day and night with thousands of identical messages. The people behind these voices are traditionally, and properly diffident about stepping into the maelstrom of highly politicized policy debate. Their views are utterly their own, and they should be heard.

III. Voices of Conscience

1. Hear first from Joy and Joe Hilley of Fairhope, Alabama. Joy is Executive Director of Children of the World, a non-profit international adoption and relief agency. Joe and Joy volunteered to come to Washington, with their two year-old adopted Chinese daughter, to offer personal witness to the ideas contained in Children of the World's June 9 press release. The full statement is attached to my testimony. Let me read from it:

"Children of the World announces today its support for the renewal of China's Most Favored Nation trade status. That status helps create a cooperative political environment between the United States and the People's Republic of China which, in turn, helps facilitate the adoption process. While no one can deny Chinese law does not guarantee rights accepted in Western countries as basic, a policy of positive cooperation yields an environment more conducive to change. Linking human rights with MFN, however well intentioned, yields the opposite result.

"China is a nation facing issues which are rooted in thousands of years of history and tradition. Many of its problems may never be adequately addressed. However, the Chinese government has recently made a great effort to address the problems relating to children living in orphanages. It has permitted the introduction of relief efforts directed toward specific orphanages and has approved a growing number of international adoptions.

"Children of the World and organizations like it have the opportunity to work with the Chinese government on an ongoing basis. This relationship provides a forum for frank discussion of the issues relating to the well-being of children. We

work each day to ensure that all children, those placed for adoption and those remaining in orphanages, have the best life possible. Maintaining a positive relationship with China, one that creates an environment of cooperation and mutual trust, makes it possible for us to work with China in a manner that produces growth and change....

"If MFN status for China is not renewed, American companies will bear economic consequences. As a non-trade and non-profit business, our concern for continued access to China is not based on economics. If MFN status for China is not renewed, the United States government will experience resistance on other issues from China. As a non-government business, our concern for continued access to China is not based on foreign policy debates. If MFN status for China is not renewed, non-profit relief organizations will experience undue hardships in carrying out their missions. As a non-profit adoption and relief organization, our concern for continued access to China is based on our belief that our presence in China has not only enriched the lives of the children who have been adopted and the American families into which they were adopted, but has actually helped save the lives of those who remain in the orphanages. We rejoice in the progress that has been made and pledge to continue our adoption and relief efforts in the People's Republic of China."

2. Here is part of "An Appeal to our Brothers and Sisters who are Concerned About China," dated May 20 and signed by nearly thirty representatives of China-focused Christian mission and educational bodies:

"MFN is not a single isolated issue. It is the core of America's engagement policy toward China. Taking it away will hurt the Chinese people, particularly those who are persecuted because of their religious faith. Hostilities will escalate between the United States and China: America-bashing is already in full bloom in China; American sanctions will make the U.S. the number one enemy in the minds of the Chinese people....When U.S.-China relationships deteriorate, Christians in China will be blamed, and penalized. The very activities which assist the church in China, and help bring about a more open China, will likely come to an end....The well-intentioned but misguided efforts by some Christian groups to call for an end to China's MFN status will strengthen the hands of hard-line leaders in China. It is time we learn from history, and pray that opportunities to serve the church in China, and to enhance a more open pluralistic society would be preserved and enhanced."

3. Next, hear the words of the eminent scholar of religion and Chinese society Richard Madsen, of the University of California at San Diego, author of the brilliant book China and The American Dream: A Moral Inquiry, whose forthcoming study of the Catholic Church in China promises to be the authoritative work on the subject. Writing in the April 25, 1997 edition of the Catholic magazine Commonweal, Professor Madsen says:

"As a sociologist, I would not have anticipated the vigorous revival of Catholicism that has emerged in the period of 'reform and opening' begun by Deng Xiaoping in 1979....The three million Catholics of 1949 have now grown to about ten million....Since the end of the Maoist era, a partial lessening of religious repression has brought division and confusion [within Chinese Catholicism]....the divisions are also exacerbated by the mixed messages Chinese Catholics sometimes receive from abroad....These differences often reflect theological arguments within the American church about the nature of paper authority and political controversies within the American public about how China should be engaged or contained. The problem for the church in China is that these foreign differences become exacerbated when they come into contact with the Chinese political climate....If we want to help China's Catholics, we should be willing to accept their gifts of devotion and courage practiced in an environment far more hostile than most of us have ever experienced, and learn from their creativity in the face of moral dilemmas far more complicated than most of us can imagine."

4. Here is The Rev. Robert A. Sirico, a Paulist priest and president of The Acton Institute for The Study of Religion and Liberty in Grand Rapids, Michigan, who has courageously distanced himself publicly, in the June 11 Wall Street Journal, from a highly publicized letter to the Vice President of the United States that he himself had earlier signed. He writes:

"The letter said nothing about a broader trade agenda....When I signed the letter on China, I did not know that it was a prologue to a full-blown political campaign that would seek to curtail commercial ties between China and the rest of the world. [The position of the creator of that letter] has emerged from a strong moral stand in favor of religious freedom to waging total trade war....[T]rade sanctions would be counterproductive. Sanctions won't bring freedom for religious expression in China. They won't end China's cruel policies limiting family size. They won't stop the horrific policy of forced abortions. They won't bring democracy. They can only further isolate China and close off avenues of greater Western influence....Just as religious

freedom offers the best hope for Christian social influence, economic freedom is the best hope for spreading that influence around the world."

5. Listen to The Rev. Ned Graham of East Gates Ministries International, of whose ministry his father, The Rev. Billy Graham and Mrs. Ruth Graham have written, "We believe God is using East Gates Ministries International in one of the most strategic outreaches of our time." In introducing East Gates, the Ministry informs us:

"In September 1992, East Gates signed a historic contract with the China Christian Council to print and distribute over 1 million Bibles from the Amity Printing Press to House Church believers over a five year period. Because the demand was so high, this allotment was fully distributed by mid-1995, two years ahead of schedule....East Gates received a new contract to print and distribute up to one million Bibles a year over the next five years. Through this God-given opportunity Bibles are now being distributed legally in every province of China, including Tibet—the first time Bibles have been legally distributed strictly to China's House Church Christians. In addition to Bibles, East Gates has been able to print and distribute other Christian literature in China, such as hymnals, concordances, and devotionals like Streams in the Desert. Although limited in scope so far, this new work holds great promise for the future as permission is granted for further titles and expanded printings of commentaries, Bible references, and books like Ned's father's best-selling book Peace with God."

The Reverend Ned Graham himself, in a "Dear Friend" letter issued recently, tells us:

"One of East Gates primary goals is to help China's leaders better understand Christianity. Traditionally Christianity in China has been viewed as western, imperialistic, and a threat to China's sovereignty. We have sought to help them understand that Christians are, perhaps, the best, most productive members of their society, and that Christianity is neither political, western and imperialistic, nor a threat to the leadership of the PRC. We have been having a degree of success in this area! That is why it is so unfortunate that some evangelical leaders publicly speak out against the PRC. In fact, some of their newsletters have carried extremely strong political overtones by calling for their readers to pressure Congress not to renew China's most favored nation (MFN) status. East Gates is neither for nor against MFN and we believe that taking a political stand on an issue such as this only undermines our Christian witness and only serves to reinforce China's belief that Christianity is to be mistrusted. This has the effect of bringing more persecution to bear upon our brothers and sisters in China, thus causing the very thing these well-meaning Christian leaders seek to end. We are frequently asked, 'Why does East Gates have these opportunities while other organizations are reporting renewed persecution and limitations?' The answer is quite simple. Like my father, Billy Graham, in Eastern Europe, we have always worked openly transparently and legally in China. We have focused on the positive possibilities rather than on negative limitations, and have stayed out of politics. Like the Billy Graham Evangelistic Association, East Gates is proof, that if you take a positive approach to working in any country—especially China, great things can be accomplished."

6. Finally, Mr. Chairman, hear a powerful voice from the wide-ranging community of Chinese political dissenters who have found sanctuary in the United States since the tragedy of Tiananmen.

As the Washington Post noted last November 17, "Just over a month ago, one of China's most celebrated human rights activists evaded his secret police minders in the southern city of Canton and took a trip into the countryside. Frightened that he would be arrested as part of a new crackdown on dissent, Wang Xizhe sought the help of friends, who provided him with a boat to escape to Hong Kong. Wang's dramatic escape from China infuriated the communist authorities in Beijing and lifted the spirits of his fellow dissidents...."

Wang Xizhe, from the time of his first pro-democracy manifesto in 1974, has served more than 14 years in prison on charges of "counterrevolution." No one in Congress should doubt Wang Xizhe's courage or his commitment to the achievement of a more enlightened political order in China.

Here is a short excerpt from Wang Xizhe's "Opinion Concerning MFN for China," published in the Christian Science Monitor on June 16, 1997. In Wang's opinion, the separation of MFN from human rights in 1994 was indeed a setback to human rights activists in China. However, he continues:

"In spite of this, I do not advocate the cancellation of MFN for China. For whether we view this from the standpoint of broad international trends or from the standpoint of the long-term interests of the U.S. and China, this action is unwise. It is also impossible, in a practical sense. Since it is both unwise and impossible, we should be seeking a better way of influencing China's progress. I agree with Presi-

dent Clinton's view: the goal of exerting effective, long-term influence over China can only be achieved by maintaining the broadest possible contacts with China, on the foundation of MFN, thus causing China to enter further into the global family and to accept globally-practiced standards of behavior. The Chinese government has made clear more than once that they are willing to conduct a dialogue with the international community on human rights questions, on the condition that the discussion not be carried out in a confrontational way. There is an element of deceptiveness in this, to be sure. But there is also a positive dimension. I would recommend that the American government, taking the elimination of the annual MFN debate as a condition, seek to establish with the Chinese communist government a system of regularized dialogue on human rights issues."

IV. CONCLUSION

Mr. Chairman, I could go on in this vein at greater length. Each of the statements I have referred to in my testimony comes from a source outside the business community, and each source is of unimpeachable integrity. I have chosen to speak before you in this manner today to make the point: preserving the lowest-common-denominator basis of the massive relationship between the United States and China is not only the earnest hope of the American business community, including companies both large and small, for convincing economic and commercial reasons; it is the right course of action for morally alert American legislators.

The attempt to paint the vote of Members of the House on MFN as a single-issue litmus test of each Member's ethical and spiritual integrity is extremely regrettable, however politically astute it might appear. As the above statements suggest, the crude portrayal of the MFN issue as a question of "Profits vs. Conscience" is, to put the matter charitably, not fully informed.

It is the other side in this debate that has chosen to turn a trade and tax issue—tariffs, after all, are indeed taxes, ultimately paid by the American people—into a conflict of Good and Evil within American society, populated by domestic heroes and villains.

I have tried, therefore, to address issues of values before you today, not by citing the words of American business people but by calling on the views of deeply committed individuals with no commercial axe to grind. I urge the Members of this Trade Subcommittee to work untiringly with their colleagues throughout the House to ensure that the observations and appeals of these dedicated and experienced American and Chinese figures be heard and heeded. I urge Members of this Subcommittee to do all that you can to secure a resounding affirmation of the fundamental framework of U.S.-China economic relations, and to lead the way in the immediate future toward an end to this wasteful and misdirected annual exercise in futility.

As I indicated at the outset, I am happy to discuss as best I can specific commercial and economic questions that members of this Trade Subcommittee might wish to raise, in the upcoming question and answer period. I have appended a few short items for your review. Thank you very much.

Mr. HOUGHTON. All right. Well, thank you very much.

Well, a lot has been said here; and I don't want to pontificate either. But the question really is not how you feel, but how you can explain. That is what happens down here.

As you know, democracy is not a totalitarian, I-have-made-a-decision type of business; and it is a messy process. The whole MFN argument really is leverage. I mean, you may want to lever it to decrease the economic deficit. Somebody might want to lever because of abortion. Somebody might want to lever because of selling military equipment to others. I mean, that is what it is.

So whether I agree with you or not—and I do—the issue really is how to present this in a way that strips away the peripheral issues and gets to the core economic one. That is not easy down here.

Mr. Williams, one of the things I have learned since I have been here is that, contrasted to business, a number is not a number. A

number is something to be wrapped by a lot of words and a lot of moralizing, and that is different. You wouldn't stand it being a controller of your company; that happens down here.

Of course, one of the things which I have always felt is that more people like yourself should run for office—rather than sitting on the sidelines and coming down here. Because there are so darn few of us that feel exactly the way you feel.

So the question is, how do you explain it to those people who feel that this is a lever? And it is very, very difficult. It is not, You should do this, you ought to do that, you could do that. We owe it to ourselves. How do you get through to those people?

Now, you know, in certain cases you can only argue somebody out of something they haven't already been argued into, and so it is unarguable. But there are people who are really willing to listen. And that is the area we are trying to concentrate on down here now.

So sending messages—to many it is wrong. In business, you must first of all think not about your financial condition, not about your research, not about your position, not about your five-generation companies. You must think, first of all, of your customer. And when thinking about your customer, you must understand how the customer reacts to certain things. Obviously, this is the problem we have here: that there are not enough people who really have been there and seen what happens and understand the evolutionary process we are going through.

Let me just ask a couple of specific questions.

Mr. Cohen, you know, you talked about expanding U.S. trade and then you talked about the WTO. I think one of the worries here is that this is an uncontrollable giant. The economy really isn't very big in China right now. I mean, it is about the size of the Benelux countries, but it is booming toward something huge.

So the question really is, do you—by your present policies, forgetting about MFN for the moment—look down the road another 10 years to see the deficit quadrupling, as it has in the last 10 years, or going to, let's say about $250 billion on an annual basis? And in 20 years? That is a real economic worry.

So when you ask somebody to join the WTO, you ask them to be fair, not only in terms of the infrastructure, pirating, technical rights, and intellectual property, but also fair. We want to export, but we also want to have the imports on a more balanced basis. That is a real problem here. Maybe you would like to address that for a moment.

Mr. COHEN. It is a very important question. The point made earlier that I would reiterate is perhaps the biggest challenge to our international economic system: how to integrate China. And, as you suggest very accurately, they have to be integrated in a way that will increase access to their market by the United States and other countries.

For China to accede to the WTO in a way that will increase access to their market, two things have to occur. Often, the emphasis is just on the one. Let me mention the two.

The first is that, if China is to be a member of the system, it has to commit to living up to the obligations of WTO membership, which means it has to play by the rules of the game with regard

to applying the principles of nondiscrimination and national treatment. This is expected of them.

Second, if China is to become a member of the World Trade Organization, it also has to engage in bilateral discussions with each of the principal countries in the WTO with regard to market access.

Let's look at the United States. If China comes into the WTO, the Chinese would have to commit to dismantling or reducing a whole range of market-access barriers to ensure that when they are in the WTO there is not an asymmetry where they have access to our market but we don't have access to theirs.

Addressing your point, not only does China have to agree to abide by the principles of the international system, but it must open up its system to U.S. exports, to U.S. investment, and to U.S. services. China must do so by establishing a schedule of commitments to bring down and eliminate their barriers. They must do this, for example, with the United States. They would also have to do it with the European Union. That is how we are going to ensure that we have access to the China market.

ECAT and other American companies are confident that if such changes are made in the Chinese system that our sales will dramatically increase to China. We do not believe that we would lose out by China's accession to the WTO on commercially acceptable terms.

Mr. HOUGHTON. Well, I hope you are right. I am a little bit from Missouri on this. Because there are other countries that have nontariff barriers which you can't see—just in terms of distribution systems, for example; you can't get your products out. And there is a natural bias in China against buying products from the United States in equal proportion, or almost equal proportion, to the stuff that they export to us. There are other countries, too.

It is going to be a constant battle for us. It is never going to be even, but it is going to be a terrible battle. Somehow all our relations in that part of the world have got to crispen up a little bit.

Because we have been taken advantage of. We have lost our consumer electronics industry. And, you know, we have had a variety of other industries really go out the window because we were unwilling to protect and say, Listen, if you sell to us, we want to be able to sell to you. It is a very, very difficult issue.

Now, let me ask you a little bit about the World Trade Organization. I am not sure that is the panacea to everything. Because it doesn't say that you must import, it says you must abide by the rules. Tell me a little bit about that; any of you gentlemen, please chime in here.

Mr. COHEN. Well, nondiscrimination is one of the tenets of the World Trade Organization. By the Chinese agreeing to open their market to all equally, so to speak, I think gives us the opportunity to sell in their market.

You know, in the eighties, many Members of Congress criticized the American business community for not being aggressive in world markets and, in a sense, they were right. We were allowing Japanese and European companies to out-compete us in pursuing overseas market opportunities.

What has truly happened—and this is why the four of us and others have come before you today—what has happened in the last

decade is a revolution in U.S. industry. The productivity of American industries and companies is at its highest level in history, and our products are truly world beaters.

Our government has encouraged us to be in overseas markets, but we are living in fear, as one of my colleagues just said, that the rug is going to be pulled out from under us. After we were criticized for not being sufficiently aggressive in overseas markets, we went into these markets, including the China market. Now what we are hearing from some—not yourself, Mr. Chairman—Members of Congress is basically, Well, that is great; you are in China; but we are not sure we want you in China.

Mr. HOUGHTON. Well, there are an awful lot of people who never had to meet a payroll or meet a deadline or mortgage their homes or do anything in terms of trying to create jobs. So you are going to have that.

But I really think—if I could just make a general, overall comment—it behooves not only myself, but also people like yourselves to start right now. I mean, if there ever is going to be permanent acceptance—which it doesn't look like there is going to be at the moment—of MFN for China, somehow this educational process has got to spread way beyond what it has done before.

Mr. Kapp, have you got a comment?

Mr. KAPP. Mr. Chairman, I think it should be said, at least for the record, that the American business community is really in some ways driving the tough positions that the U.S. Trade Representative, USTR, takes with China. That is, at the end of the day, the USTR, who has done a very valiant job and fought very hard and is making progress——

Mr. HOUGHTON. Right.

Mr. KAPP [continuing]. Is doing so because the American business community is saying, Don't settle for less than a legitimate deal.

Mr. HOUGHTON. Right. Right.

Mr. KAPP. In that sense, I think the distribution issue is primary for American companies—on national treatment, trading rights, and so forth. We are pushing hard.

I might say, in that regard, that one of our concerns is that, just when there are signs that real progress is being made and that, for a number of reasons, we may actually find ourselves approaching—although we are not there yet—the edge of a real deal, a really commercially legitimate deal, the furor within the American domestic dialog over China could actually put us in a situation where it is politically infeasible for the Americans to sign off on the very deal achieved through bitter negotiation. And that would be an enormous, historically significant tragedy if that were to occur.

I did not sense, from Mrs. Barshefsky's comments this morning, that the negotiations are yet clearly feeling the chill wind of the American crisis stemming from the political issues that have come up in the last 6 months over China. But, were that to happen—were the Chinese to conclude that the United States would never sign off on a good WTO deal anyway, so why should their negotiators commit political suicide by laying their best cards on the table—and were the Chinese, under those circumstances, to begin to tread water because they don't want to be told by the United

States, Thanks but no thanks, we would have lost a tremendous opportunity.

Mr. HOUGHTON. I understand that because, as you know, in business, timing is everything. We just can't sit around and think that we're an island unto ourselves, that we could do whatever we want when we want.

The perfect example is in South America with Mercosur. We are fiddling around with this trade agreement on fast track with Chile. And if we are not careful, we are going to be frozen out of that market, so it's the same thing over there.

The good thing we do have, though, is that we are a big market. That is our most precious asset. We have got to play that again.

Well, listen, gentlemen, I appreciate you very much being here. Yes?

Mr. WILLIAMS. I just want to make two little comments.

You talked about what it takes to be in business. Our company's motto—and it is written on this pen that I will leave here for someone—is, Take good care of your customers and do what is right.

I want to thank the group here for giving me some answers to the questions that I am being asked overseas: Why is your government doing this? Why? I have got the perfect answer now, having spent the day here. I am going to say that it is nothing but politics.

Let's you and I do business. Get on with our business. Because business makes a profit, and a profit means that things get better. And that individual who has the profit—either from starting a small business or wages from the business—gets a better lifestyle. That would solve a lot of the problems they talked about today.

Thank you for indulging me, sir.

Mr. HOUGHTON. Well, I am not sure about answering that way. I mean, you have got to answer it any way you want. But when you say politics, you talk about consensus; and when you talk about consensus, you talk about issues other than the ones that you in particular are personally interested in.

So we have got to be very careful, and you have got to be very careful to understand that you are part of this country and that I am part of this country. Although I may want something, there are other considerations that people who have equal power want just as strongly. So let's make sure we are part of a unified country.

Thank you very much, gentlemen. I certainly appreciate it.

Mr. COHEN. Thank you, sir.

Mr. WILLIAMS. Thank you, sir.

Mr. HOUGHTON. Can I introduce the final panel?

We are going to begin with Robert Hall, vice president and international trade counsel for the National Retail Federation; Carlos Moore, executive vice president, American Textile Manufacturers Institute; Barbara Shailor, director of the international affairs department, AFL–CIO; and Robert O'Quinn, policy analyst for international economics and trade of the Asian Studies Center for the Heritage Foundation.

Thank you very much, lady, gentlemen, for coming here. We appreciate it.

Maybe Mr. Hall would begin.

STATEMENT OF ROBERT HALL, VICE PRESIDENT AND INTERNATIONAL TRADE COUNSEL, NATIONAL RETAIL FEDERATION

Mr. HALL. Good evening, Mr. Chairman.

I am Robert Hall, vice president and international trade counsel at the National Retail Federation, the Nation's largest trade group speaking for the retail industry. We represent the entire spectrum of retailing, which includes several dozen national retail associations and all 50 State retail associations.

Our membership represents an industry that encompasses over one and a half million retail establishments, employs 20 million Americans—one in five Americans—and last year registered sales in excess of $2.5 trillion.

The Federation strongly supports renewal of China's most-favored-nation status for several reasons. First, MFN for China helps American families make ends meet. Second, MFN for China creates high-paying jobs relating to both exports to and imports from China. Third, MFN for China promotes change within China. Four, failure to renew China's MFN trading status would deal a severe blow to Hong Kong. And, fifth, no one understands better than retailers the importance that MFN for China plays in helping families purchase well-made, value-priced goods.

Every day the Federation's members shop the United States and the world in search of consumer goods that meet American families' demands for quality at competitive prices. China offers us an opportunity to provide the goods these consumers demand at prices that fit their increasingly tight budgets.

For many products such as toys and consumer electronics, to name just two, China is a low-cost alternative to other foreign producers. In other cases, such as the high-quality silk apparel sold by high-end department stores and also by mass retailers, China is the only source for a given product at affordable prices. In the case of silk apparel, even U.S. producers are not alternative suppliers.

Failure to renew MFN for China would trigger an avalanche of price increases across the United States without consideration for the tight budgets of American families. For example, the Trade Partnership has concluded that failure to renew China's MFN tariff status would increase the price of many toys by 66 percent, perhaps wiping out several particularly popular stuffed toys off the list of possible presents for children.

I have today an example of this—a teddy bear which our study has concluded would go up in price by 65 percent if you revoke MFN for China. Similar toys would increase by up to 90 percent. Similarly, the range of available low-priced bicycles for children would also be cut dramatically. Very inexpensive personal tape players would likely disappear. Low-cost footwear would no longer be low cost. Silk apparel prices would leap out of the range of most budget consumers.

Imports of these products from China are significant, and failure to renew MFN would have broad effects on American families.

Overall, the International Business and Economic Research Corp. estimates the failure to renew MFN for China would force the average American family to pay an extra $300 a year in higher

prices. Clearly, this non-MFN status would take a particularly heavy toll on low-income families who depend on low-cost goods.

MFN for China creates high-paying jobs for the United States—as you heard from many of the export companies here today, over 170,000 jobs. These include high-paying jobs in growing industries such as telecommunications, information technology, aviation, and power generation. These jobs would be jeopardized by failure to renew MFN for China, and China would, in turn, retaliate and shift its purchases to companies in Europe, Japan, Canada, and elsewhere. In addition, U.S. jobs or related U.S. investment in China would also suffer if China retaliated in even subtle ways against those investments as a consequence of U.S. denial of MFN.

What is not widely known is that U.S. imports from China, which are more directly affected by MFN tariff treatment, support an even larger number of high-paying U.S. jobs than U.S. exports to China. The Trade Partnership estimates that U.S. exports of consumer goods from China in 1996 alone supported 2.4 million jobs in high-paying sectors such as manufacturing. Those are the jobs related to cash registers and the trucks that transport goods to stores, for example, finance and insurance, transportation, wholesaling, and, of course, retailing. Failure to renew MFN for China would force many companies in these sectors to lay off workers, because the reduction in demand for imports would no longer justify their jobs.

For my final two points, I will refer to you my formal submission.

I would conclude by saying there is much at stake in the decision to renew MFN tariff status. Much of what is at stake lies within America's borders. Misguided efforts to promote human rights and democracy in China and even Hong Kong would likely have the opposite of the effect intended. Added to that would be the enormously heavy burden on American families.

Mr. Chairman, with your permission, I submit for the record a copy of a letter we sent today and hand-delivered to all Members of the Ways and Means Committee. It is signed by a number of leading retail chief executive officers in this country, and they are asking that this Subcommittee report unfavorably the disapproval resolution offered by Mr. Solomon.

[The letter follows:]

Sent to all Members of the House
Ways and Means Committee

NATIONAL RETAIL FEDERATION

June 17, 1997

The Honorable Bill Archer
Chairman
House Ways and Means Committee
1236 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

We are writing on behalf of many of the nation's leading retail companies and the millions of Americans our companies employ to urge you to support renewal of most favored nation (MFN) status for China.

Continued MFN for China is crucial for ensuring the uninterrupted flow of goods to and from China. Revoking MFN would endanger the $14 billion in U.S. agricultural, manufacturing, and services exports to China and the 170,000 American jobs directly linked to trade with China. This figure does not include the tens of thousands of U.S. jobs in ports, distribution centers, and our retail companies that would be adversely affected by letting MFN for China lapse.

In addition to the billions of dollars in American-made goods U.S. companies export to China, many companies, and retailers in particular, rely on China as a source for high-quality, low-cost consumer goods. Without these goods from China, American consumers would be forced to pay more for the goods they need and all Americans would suffer -- especially lower-income families. For example, a pair of low-cost sneakers now priced at $10 would nearly double in price should MFN be revoked. This is but one of many examples of the significant price increases consumers would be forced to bear.

Further, failure to renew MFN would serve to de-stabilize the Pacific Rim region and slow economic and social reforms in China. You may have heard from groups suggesting that the U.S. must punish China for alleged human rights abuses by revoking MFN. We, too, abhor human rights abuses. As an industry, we are taking many steps to identify and correct particular situations, but we believe that the best way to bring about broad and meaningful change in China is through continued engagement. Without engagement, of which MFN is a crucial component, we cannot hope to see social or economic reform reach fruition.

The World's Largest Retail Trade Association
◆
Liberty Place, 325 7th Street NW, Suite 1000
Washington, DC 20004
202-783-7971 Fax: 202-737-2849

Page two

Exports from the U.S., products for American families, international security, and social reform are but a few reasons MFN for China must be renewed. On behalf of the retail industry, we once again urge you to support renewal of MFN and oppose the well meaning, but misguided efforts to revoke or limit it.

Thank you in advance for your consideration of our request and we look forward to working with you in the future on this and other issues.

Sincerely,

Burnett W. Donoho
Vice Chairman and COO
Montgomery Ward & Co., Incorporated

Donald G. Fisher
Chairman
The Gap, Inc.

Michael Goldstein
CEO
Toys "R" Us, Inc.

Clark A. Johnson
Chairman & CEO
Pier 1 Imports, Inc.

Jerome T. Loeb
President
The May Department Stores Company

Arthur C. Martinez
Chairman & CEO
Sears, Roebuck and Co.

Tracy Mullin
President
National Retail Federation

David L. Nichols
Chairman & CEO
Mercantile Stores Company

James E. Oesterreicher
Chairman & CEO
J. C. Penney Company, Inc.

Gordon I. Segal
Chief Executive Officer
Crate & Barrel

John J. Shea
Vice Chairman, President & CEO
Spiegel, Inc.

Robert Ulrich
Chairman & CEO
Dayton Hudson Corporation

Arnold B. Zetcher
President & CEO
The Talbots, Inc.

James M. Zimmerman
Chairman, CEO
Federated Department Stores, Inc.

Mr. HALL. Mr. Chairman, the American retail industry urges you and this Subcommittee to recommend a continuation of MFN status for China.

[The prepared statement follows:]

Statement of Robert Hall, Vice President and International Trade Counsel, National Retail Federation

I. Introduction

The National Retail Federation ("the Federation") is the nation's largest trade group which speaks for the retail industry. It represents the entire spectrum of retailing, including several dozen national retail associations and all 50 state retail associations. The Federation's membership represents an industry that encompasses over 1.5 million retail establishments, employs more than 20 million people, one in five Americans, and registered sales in excess of $2.5 trillion in 1996.

The Federation strongly supports the renewal of China's most favored nation (MFN) trading status for several reasons:

- MFN for China helps American families make ends meet;
- MFN for China creates high-paying jobs related to both exports to China and imports from China;
- MFN for China promotes change within China; and,
- Failure to renew China's MFN trading status would deal a severe blow to Hong Kong.

II. MFN for China Helps American Families

Perhaps no one understands better than retailers the importance MFN for China plays in helping American families purchase well-made, value-priced goods. Every day, the Federation's members shop the United States and the world in search of consumer goods that meet American families' demands for quality at competitive prices.

China offers us an opportunity to provide the goods these consumers demand at prices that fit their increasingly tight budgets. For many products, such as toys and consumer electronics, to name just two, China is a low-cost alternative to other foreign producers. In other cases, such as high-quality silk apparel sold not only by high-end department stores but also by mass retailers, China is the only source of a given product at affordable prices. In the case of silk apparel, even U.S. producers are not alternative suppliers.

Failure to renew MFN for China would trigger an avalanche of price increases across the United States, without consideration to the tight budgets of American families. For example, The Trade Partnership has concluded that failure to renew China's MFN tariff status would increase the prices of many toys by 66 percent, perhaps wiping several particularly popular stuffed toys off the list of possible presents for many children. Similarly, the range of available low-priced bicycles for young children would be cut dramatically. Very inexpensive personal tape players would likely disappear. Low-cost footwear would no longer be low-cost. Silk apparel prices would leap out of the range of most budget consumers.

Imports from China of these products are significant, and failure to renew MFN would have broad effects on American families. For example, toys imported from China account for about half of all toys sold in the United States. Footwear imported from China account for about 60 percent of all footwear sold in the United States. Joel Popkin of Joel Popkin Associates was recently quoted in the Washington Post as concluding that declining import prices have reduced the increase in the U.S. inflation rate, as measured by the consumer price index, by 0.3 percentage points.[1]

Imagine what would happen to the inflation rate—and American families' budgets—if the prices of consumer goods imported from China shot up by as much as 66 percent.

Overall, the International Business and Economic Research Corporation estimates that failure to renew MFN for China would cost the average American family an extra $300 a year in higher prices they would be forced to pay. Clearly this non-MFN "tax" would take a particularly heavy toll on low-income families who depend on lower-cost goods.

III. MFN for China Creates Good Jobs in the United States

MFN for China creates high-paying jobs in the United States. You have heard from many that U.S. exports to China support more than 170,000 American jobs every year. These include high-paying jobs in growing industries such as telecommunications, information technology, aviation and power generation. These jobs

[1] John M. Berry, "Increased Global Competition Helps Hold Down U.S. Inflation," *The Washington Post*, June 5, 1997, p. D–1.

would be jeopardized by a failure to renew MFN because China would, in retaliation, simply shift its purchases from U.S. companies to companies in Europe, Japan, Canada and elsewhere. In addition, U.S. jobs related to U.S. investments in China would also suffer if China retaliated in even subtle ways against those investments as a consequence of a U.S. denial of MFN for China.

But what is not as widely known is that U.S. imports from China, which are more directly affected by MFN tariff treatment, support an even larger number of high-paying U.S. jobs than U.S. exports to China. The Trade Partnership estimates that U.S. imports of consumer goods alone from China in 1996 supported more than 2.4 million American jobs in such high-paying sectors as manufacturing (the jobs related to making cash registers and trucks to transport goods to stores, for example), finance and insurance, transportation, wholesaling and, of course, retailing. Failure to renew MFN for China would force many companies in these sectors to lay off workers because the reduction in demand for imports would no longer justify their jobs.

IV. MFN for China Promotes Change Within China

Engagement with China through trade is the best way to promote change in China, not just economic change but political and human rights changes as well. One need just look at what is going on in southern China to know this is true. Capitalism is thriving in southern China thanks to a flood of foreign investment and close integration with businesses in Hong Kong. It is in southern China that you find Chinese citizens enamored of the West and what it has to offer.

The Federation's members strongly believe that the best way to build pressure from within for a change in China's human rights practices is to expose still more Chinese citizens and current ane future government officials to Western ideals, through business contacts, the Internet, the media, and by educating Chinese students in American universities. The process takes time and exercising adequate patience can be difficult. But, one thing is certain. We believe that the failure to renew MFN for China will not advance the cause of human rights protection in China.

V. Failure To Renew China's MFN Trading Status Would Deal a Severe Blow to Hong Kong

Failure to renew China's MFN trading status would deal a severe blow to Hong Kong. Hong Kong is the main gateway for China's trade and investment abroad. Indeed, some have estimated that more than half of U.S.-China trade passes through Hong Kong. The majority of Hong Kong's manufacturing industry is now located across the border in China, and many multinationals make Hong Kong their international base. The government of Hong Kong projects a halving of the colony's growth to just under 3 percent if China loses MFN.

Such a blow would be all the more ironic if it were dealt in the name of protecting democracy in Hong Kong. Governor Patten said it best: "For the people of Hong Kong, there is no comfort in the proposition that if China reduces their freedoms, the United States will take away their jobs."

VI. Conclusion

There is much at stake in the decision to renew China's MFN tariff status. Much of what is at stake lies within American borders. Misguided efforts to promote human rights and democracy in China, and even Hong Kong, would likely have the opposite effect intended. Added to that would be an enormously heavy burden on American families.

Mr. Chairman, the American retail industry urges you and this Committee to recommend a continuation of China's most favored nation trading status.

Mr. Houghton [presiding]. Mr. Moore will now testify.

STATEMENT OF CARLOS MOORE, EXECUTIVE VICE PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. MOORE. Thank you, Mr. Chairman.

My name is Carlos Moore. I am executive vice president of the American Textile Manufacturers Institute, ATMI. Our members make and sell nearly every kind of textile product and consume almost 80 percent of all textile fibers used in the United States. Our members also have a keen interest in trade, especially with respect to China, which is the world's largest exporter of textiles and apparel.

Today I would like to expand upon my written statement by developing more extensively the idea of linkage between the United States granting MFN for China and the demands of the United States on China in the WTO accession negotiations.

Let me begin by saying that China has not earned the privilege of MFN status, and ATMI opposes renewing MFN until China makes major reforms. These reforms include, but are not limited to, opening their market to provide effective access to our products and the products of other countries, and stopping illegal transshipments of textiles and apparel.

And, Mr. Chairman, if I could add here, the written statement I submitted contains a map prepared by the U.S. Customs Service showing the transshipment routes from China to other countries. That map was included in the black-and-white copies, but I do have color copies here which I think show the routes much more clearly, and would like to have them added to my statement, especially for the Members of the Subcommittee.

The other major reforms we seek include that China cease piracy of our intellectual property, and that they delink foreign investment to export performance. What we find most interesting is that this same list, plus some other items, appears on the list of reforms that the United States is seeking in the WTO accession talks, a very similar list. We would like to offer an approach that, in fact, links the two.

We urge Congress to withhold MFN status from China until China implements those reforms which would qualify it for WTO membership. It seems logical, sensible, and reasonable to grant MFN status only after China makes the changes that qualify it to join the world trading community as a WTO member. It also seems that China will be much more likely to make those reforms if MFN is withheld.

Mr. Chairman, let me be even more specific. The United States negotiated an excellent bilateral textile agreement with China earlier this year, and at that time we congratulated—and continue to congratulate—Ambassador Rita Hayes, the chief textile negotiator, for bringing home such a good agreement; and Ambassador Barshefsky for taking a hardline and demanding market access for U.S. textile and apparel products into China.

The agreement achieved vital objectives. It cut back quotas because China had been cheating under the agreement it had, tough enforcement language, and market access. What we need now is to enhance access by extending it to other products, and to obtain further improvements during the WTO accession talks.

In our view, before China can join the WTO—and before Congress should grant MFN treatment—China must bind its tariffs at U.S. levels; eliminate nontariff barriers, including subsidies and state trading practices; phase out textile and apparel quotas over 10 years; end transshipment of products and overshipment of quotas; end design and copyright piracy; and finally—and maybe most importantly—agree to a special permanent safeguard mechanism based on disruption of the U.S. market without compensation or retaliation that can be applied for a time necessary to remedy the disruption.

This latter requirement is essential, we believe, to mitigate the enormous damage that China has shown it can inflict on U.S. producers and workers.

Mr. Chairman, in our judgment, there is a connection between the WTO access negotiations which have been going on for years and the necessity for leverage over China to adhere to some meaningful reforms and concessions in those WTO negotiations.

If Congress can make that link—withholding MFN status as the price that China must pay to reform its system to join the WTO accession—I believe that all of us in this economy will be better off, especially over the longer haul, as China joins the community of nations under really meaningful reforms and with an open market system.

Thank you.

[The prepared statement and attachments follow:]

Statement of Carlos Moore, Executive Vice President, American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the textile mill products industry. ATMI members make and sell every kind of textile product, and understandably, have a keen interest in matters relating to international trade, particularly with respect to China, the world's largest exporter of textiles and apparel, and the largest foreign supplier to the U.S. market.

China has achieved its position of prominence in the U.S. market primarily due to its being accorded most-favored-nation (MFN) status, thus entitled to the low rates of import duties which such designation conveys. By its very nature, the principle of most-favored-nation confers benefits on countries which deserve to be treated on a par with others with which we trade. ATMI finds little evidence that China deserves such status. Rather, China has abused the privileges which MFN status confers and ATMI believes that China's MFN status should not be renewed unless and until China makes—not commits to, not promises to—but *makes* several fundamental reforms in its commercial and trading practices:

- China must reduce its tariffs to levels that will truly permit imports access to the Chinese market.
- China must cease the transshipment of textile and apparel products through third countries to the United States in violation of U.S. law and its textile trade agreement with the United States.
- China must cease its flagrant intellectual property piracy, including (but certainly not limited to) the theft and reproduction of American textile designs, patterns, trademarks and logos.
- China must eliminate its myriad of non-tariff barriers and adopt import regulations that are transparent and fair.
- China must abandon its performance-linked investment laws which require that the great majority of goods produced in China by foreign investors be exported rather than sold in the domestic market.

In short, China must act as a responsible trading partner, offering the United States access and treatment at least roughly equivalent to that which the United States accords China. Our trade relations with China should be equitable, reciprocal and fair. Currently, they are none of these, as our $40 billion trade deficit with China conclusively demonstrates. Of even greater concern to ATMI is the fact that

last year, while the United States exported only $49 million worth of textiles and apparel products to China, the U.S. imported fourteen times as much, $6.8 billion, from China. Clearly, this is a parasitic trading relationship and we are the unwilling host.

With respect to two of the items noted above, transshipment and intellectual property piracy, the record is clear. On not less than nine occasions, the interagency Committee for the Implementation of Textile Agreements (CITA) has published Federal Register notices advising the Commissioner of Customs that China's textile and apparel quotas—already the largest of any country's—were being reduced to compensate for illegal transshipments. The attached map (Exhibit A), prepared by the Customs Service, shows some of the countries through which China transships to the United States.

As the attached article from the June 3 edition of the Journal of Commerce (Exhibit B) notes, China's intellectual property piracy continues unabated. In this regard, it should be noted for the record that this past January a member of the ATMI staff was in Beijing and found a variety of pirated materials for sale at retail: illegal copies of computer software, audio and visual recordings. This purchase took place *six months after* China signed an agreement promising to cease forthwith the production and distribution of such materials. Here we are a year after the agreement and, as the Journal of Commerce points out, the "latest version" of pirated American intellectual property is still sold in China.

When will it stop? How will it stop? What can the United States do to compel China to open its market, stop pirating our valuable intellectual property, adopt trade rules and regulations commensurate with its standing as one of the world's largest trading nations, cease illegal transshipment of textiles and apparel and provide even-handed treatment of potential investors? The record shows that "constructive engagement," negotiation, rapproachment, dialogue and agreement-signing have not achieved the desired ends. These have all been tried—repeatedly—and failed. The United States has exhausted its supply of carrots in trying to persuade China to undertake the necessary reforms. It is now time to use the stick: revoke China's MFN status until the reforms are in place.

Closely linked to MFN status and, we believe, worthy of the Subcommittee on Trade's consideration is China's accession to the World Trade Organization (WTO). The world's most populous nation with the fifth largest economy (which will rise to fourth largest with the absorption of Hong Kong on July 1), China cannot be allowed to continue to bend, break or blithely ignore many of the rules of fair trade which govern the world's commerce and reap the benefits of both MFN status and WTO membership. China should not be admitted to the WTO until it has completed the following reforms:

- It must have a convertible currency with one and only one rate of exchange;
- It must cease the repeated violation of trade agreements to which it is a signatory;
- It must end the subsidization of its exports;
- It must stop dumping its exports in foreign markets;
- It must open its market to imports, which means, among other things, lowering tariffs to reasonable levels and binding them to the WTO, removing capricious and arbitrary non-tariff barriers and adopting truly transparent rules and regulations;
- It must abolish its export performance-linked investment laws;
- It must not constrain its import trade through state-controlled quasi-commercial enterprises, and
- It must cease forthwith its massive intellectual property violations.

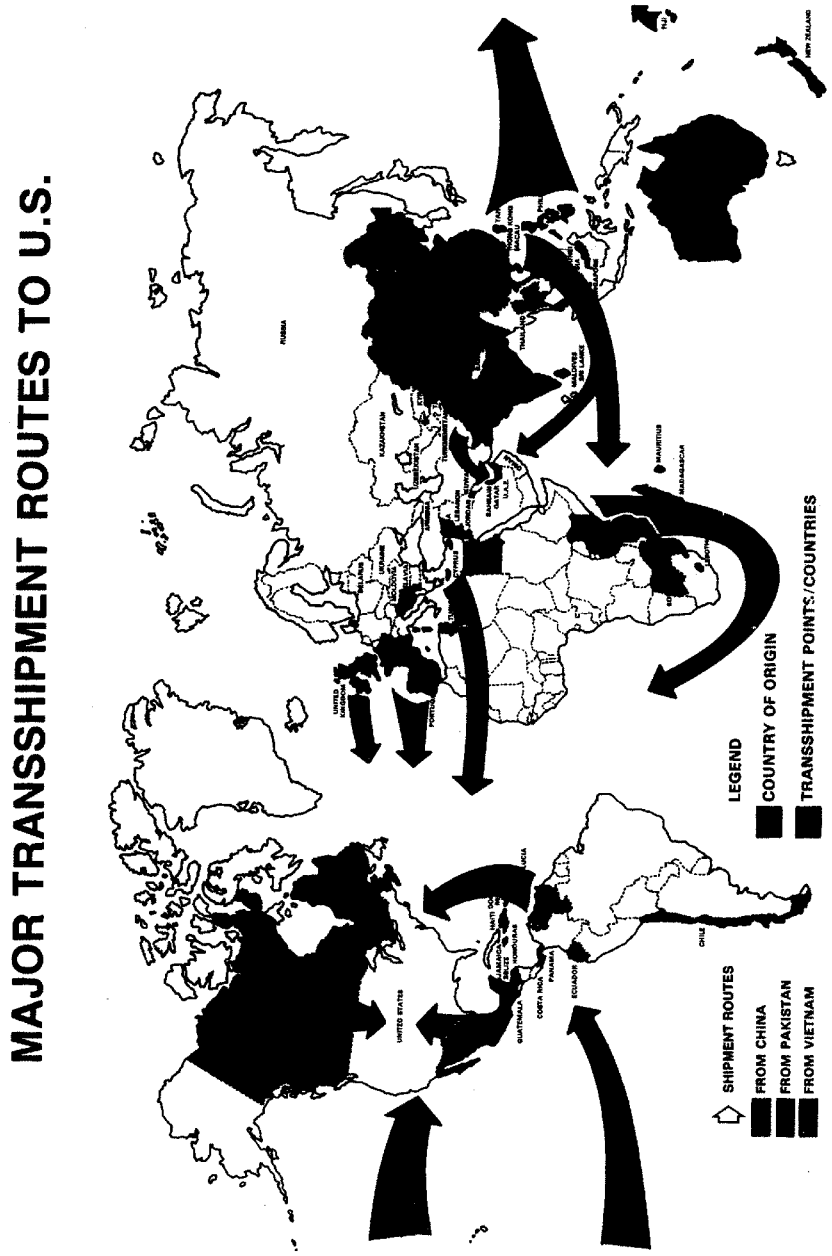
The recent U.S.-China textile trade bilateral market access agreement will lead to reductions in China's tariffs for a large number of textile and apparel products; other products, however, were not included and need to be addressed in the accession talks. Also critical is the non-tariff barrier side of the equation which needs to be fully addressed in the accession agreement. Prior to China's accession to the WTO, China must agree:

- To bind its textile and apparel tariffs at U.S. levels;
- To eliminate all non-tariff barriers, including but not limited to export performance requirements, restrictions on imports for state trading companies, licensing and quota restrictions;
- To a full ten-year phase-out of its quotas, beginning with the date of its accession to the WTO and following the same ten-year integration schedule set forth in the Agreement on Textiles and Clothing (ATC);
- To the creation of a permanent special safeguard mechanism which would allow for the reimposition of quotas if Chinese imports surge into the U.S. market and cause market disruption;

• To end the transshipment of its products through third countries and overshipment of its quotas;

• To end the piracy of American designs and copyrights.

Other nations, far smaller, less economically powerful than China, have paid the full price for WTO membership. To admit China on less stringent terms should be unthinkable. In ATMI's view, renewal of MFN status should also be contingent upon these reforms and should not be granted until then.



Mr. HOUGHTON. Thank you, sir.

Ms. Shailor, and then we will get to you last, Mr. O'Quinn, if that is all right.

Mr. O'QUINN. Fine.

EXHIBIT B

China challenges patent-rights pirates

But healthy underground business abounds despite government's stern enforcement efforts

BY MARK MAGNIER
JOURNAL OF COMMERCE STAFF

BEIJING — "You like CD?" a man says under his breath in Beijing's Silk Alley.

"CD-Rom?"

We're standing almost directly across from the U.S. Embassy.

His slightly dirty white shirt is open at the collar and tucked into blue polyester pants. We walk about 40 yards down the street and turn left into a smaller alley. Ten yards or so straight on, we duck into the doorway of a dirty, low-rise walk-up apartment building with a leaking water pipe and a tattered broom near the entrance. From here, it's up three flights of concrete stairs.

"Wait here," the CD-Rom man says.

It's impossible to see where he's going from "here." In about 20 seconds he returns with a white plastic bag.

The mother lode. The bag must hold 150 CD-Roms with some of the very latest programs retailing for up to $500 apiece in the United States. He grabs a pile that includes what he claims is Windows 97, a program not yet out in legitimate stores.

Others include Correl Office '97, Pagemaker, various Microsoft reference encyclopedias, fighter pilot and other multiple game packages, architectural design software, spread sheet tutorials, you name it.

He keeps chirping, "Latest version, latest version."

How much? "Forty yuan," he says, or about $5.

As I start to walk away, the price drops to 25 yuan — about $3 dollars — before I'm out of sight.

Signs of progress

China has improved its safeguards against intellectual property rights (IPR) violations — illegal pirating of audio and video casettes, software, CDs and CD-Roms, fake designer clothing and other patent and copyright violations — since mid-1996 when Washington threatened to impose $5 billion in punitive sanctions unless it cleaned up its act.

It has had some high-profile raids on CD factories and tried harder to discourage the most blatant marketing.

"The Chinese government attaches great importance to the protection of IPR," said Liu Xiangdong, China's assistant minister of foreign trade and economic relations in an interview.

Seven CD plants have been closed, he added, with 10 million discs seized and 1.1 million illegally copied books destroyed.

"The Chinese government is making huge efforts with the police, culture and administrators doing their duty," he said.

China has improved its safeguards against intellectual property rights violations since mid-1996 when Washington threatened to impose $5 billion in punitive sanctions unless it cleaned up its act.

Western anti-piracy officials acknowledge that the situation is getting better. "It's bad, but it is improving," said one Western diplomat.

Orders from the top

In a relatively rare development, the diplomat said, China's central leadership has put pressure on local officials who are closer to the problem.

"They've made the case that this is hurting them as well as us," the official said, now that China is developing its own domestic brands that are also being copied.

Chinese officials also correctly point out that even the United States has huge amounts of software piracy, although these tend to involve unauthorized copying rather than outright sales.

Much work remains

Western analysts say it probably will take a decade or more before China is in full compliance.

One problem is that China, growing out of the communist days, still tends to value goods over services, ideas and brand names.

China's checkered record on "borrowing" trade secrets has affected investment decisions for many foreign companies operating in China that fear seeing proprietary systems end up in the hands of competitors.

Although China has pushed foreign companies to transfer their best technology to China, many companies make sure their cutting-edge technology doesn't enter the country. One Chinese official complained that Japanese companies were particularly stingy.

Nico A. Buijs, general manager of Lucent Technologies of Shanghai Ltd., a joint-venture between Lucent and Chinese state telecom authorities, said loss of trade secrets is less of a concern for them, since their partner is the government and the fiber optic systems are not easily copied.

The company is concerned that its management network software could "leak" — particularly through third-party suppliers with less direct loyalty to Lucent.

Lucent is now working out how to bring its in-house global intranet to China.

While this is a great tool for linking the company's global pool of engineers and managers, it also has a lot of sensitive technical information that pirates could take and use to hurt the company competitively.

"We're working on access, but right now I'm the only one that has access because we're still concerned about it," Mr. Buijs said.

JOURNAL OF COMMERCE
JUNE 3, 1997

STATEMENT OF BARBARA SHAILOR, DIRECTOR, DEPARTMENT OF INTERNATIONAL AFFAIRS, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL–CIO)

Ms. SHAILOR. Thank you, Mr. Chairman, for the opportunity to present the views of the AFL–CIO on the extension of most-favored-nation trading status to China.

As we have in the past, we oppose granting China continued access to the U.S. market on the same terms as other trading partners. Our opposition has not changed, but then neither have the objective conditions with respect to China's denial of basic worker rights, its brutal repression of dissidents, and its flaunting of international agreements on arms sales, market access, intellectual property rights, forced labor, and the environment.

The massive and growing U.S. trade deficit with China makes clear the serious consequences of China's nonreciprocal and discriminatory trade and investment policies. These policies have cost American workers jobs and created a downward pressure on their wages.

MFN proponents have argued that continued trade and investment growth will bring democratic changes to China. The 17 years of experience suggests otherwise. The only change that has occurred is that another year has gone by: another year in which the Chinese Government has failed to improve its human rights or workers' conditions, has failed to honor the agreements it has signed. Our trade deficit continues to grow, and repression in the country has worsened.

As the State Department confirmed, no dissidents were known to be active at the year's end. This is because each and every one of them has been imprisoned, exiled, or intimidated into silence. Over 1 billion citizens, and not 1 active dissident.

What should be clear is that passivity in the face of oppression and abuse of power is not working. What we should have learned from the last 8 years is that accommodation mixed with hope does not, has not, and will not work. The few signs of progress we have seen, either in human rights or intellectual property rights protection, have only come when trade sanctions seemed most imminent.

When Congress voted to impose trade sanctions against China in 1989 and 1990 in the wake of the Tiananmen Square massacre, the Chinese Government responded by releasing several hundred dissidents. When President Clinton delinked human rights from trade in 1994, efforts by the Chinese Government to demonstrate progress on human rights ended. Only when the USTR threatened to impose trade sanctions in 1995 did the Chinese Government take steps to reduce their massive piracy of intellectual property.

Ours has been a strategy of accommodation, both to the Chinese Government and to U.S. multinationals investing in and trading with China. Meanwhile, the Chinese Government has accelerated its mercantilistic trade strategy and consolidated political, economic, and military power.

The issue of greatest concern to the AFL–CIO is the Chinese Government's total repression of independent labor unions. Attempting to organize a union independent of the Communist Party

is a crime. Referred to as the Polish disease, independent labor organizing poses the greatest threat to the totalitarian government.

In a complaint presented to the ILO last week in Geneva, the International Confederation of Free Trade Unions documents the lengthy prison sentences, incarceration in psychiatric institutes, torture by electric shock, deprivation of water, and the withholding of medical care routinely endured by imprisoned trade unionists.

As these trade unionists toil in labor camps, the Chinese Government continues to violate the 1992 memo of understanding on prison labor. Products made via forced labor continue to come into our country while our trade deficit skyrockets, reaching nearly $40 billion last year. And it is a continuing and ongoing scandal that companies owned by the Chinese People's Liberation Army continue to sell their products in the United States.

The administration, Congress, and the companies have put on blinders against these harsh realities because of the lure of the Chinese market. For all of the hoopla about the size of the Chinese market, the United States sold more goods last year to Belgium, Singapore, and the Netherlands. And for all the talk about jobs supported by U.S. exports to China, 9 out of 10 of the top export surplus categories were in raw materials and intermediate goods.

Even in the aerospace and auto industry, China's policy of extorting technology transfers and production capacity from American companies exporting to China is costing the United States good jobs. Transferring technology for short-term market access will take its toll for years to come.

The AFL–CIO supports trade expansion, international engagement, and equitable development. But the Chinese Government is not engaging in free trade, and we help neither the vast majority of Chinese citizens nor our own working families by ignoring this basic fact.

Thank you, Mr. Chairman.

[The prepared statement and attachment follow:]

Statement of Barbara Shailor, Director, Department of International Affairs, American Federation of Labor and Congress of Industrial Organizations (AFL–CIO)

Thank you, Mr. Chairman and members of the Committee, for this opportunity to present the views of the AFL–CIO on the extension of most favored nation (MFN) trading status to China. As we have in the past, we oppose granting China continued access to the U.S. market on the same terms as most of our other trading partners. Our opposition has not changed, but then neither have the objective conditions with respect to China's denial of basic worker rights, its brutal repression of dissidents, and its flaunting of international agreements on arms sales, market access, intellectual property rights, forced labor, and the environment. The massive and growing U.S. trade deficit with China makes clear the serious consequences of China's non-reciprocal and discriminatory trade and investment policies. These policies have cost American workers jobs and increased downward pressure on their wages.

What has changed in this year's debate relative to last year's is that another year has gone by: another year in which the Chinese government has failed to improve its human or worker rights record and has failed to honor the agreements it has signed. Another year in which our trade deficit grew by $6 billion, while our exports remained stationary.

If anything, the repression has worsened. The State Department's Human Rights report this year stated baldly that "No dissidents were known to be active at year's end," as each and every one was in prison, exiled, or intimidated into silence. Over one billion citizens and not a single active dissident. This should be enough to chill anyone's blood.

MFN proponents have argued that continued trade growth will bring democracy to China. Instead, China seems intent upon stifling democratic developments in its neighbors. This year, the Chinese government announced that it would roll back civil liberties in Hong Kong after July 1st. In addition, China has aggressively threatened the emerging democracy in Taiwan, refusing to renounce the use of military force there.

The Administration's own annual reports on Foreign Trade Barriers indicate that China routinely fails to abide by the Memoranda of Understanding that it signs with the United States. Mickey Kantor, then-USTR, told the Washington Post (June 18, 1996): "China has been somewhat more difficult to work with on trade agreements than some other countries. There is very little history of rule of law, or frankly, respect for law."

The U.S. government has extended MFN trading privileges to China every year for the last 17 years, and has nothing to show for it.

What should be clear is that passivity in the face of repression and abuse of power is not working. It has been eight years since Tiananmen Square. For eight years, the U.S. Congress has debated granting China MFN status every spring, but has taken very little action. What we should have learned from these last eight years is that accommodation mixed with hope does not, has not, and will not work.

The few signs of progress we have seen—either in human rights or in intellectual property rights protection—have come when trade sanctions seemed most imminent. When Congress voted to impose trade sanctions against China in 1989 and 1990 in the wake of the Tienanmen Square massacre, the Chinese government responded by releasing several hundred dissidents. When President Clinton delinked MFN from human rights in 1994, most efforts by the Chinese government to demonstrate progress on human rights ended.

Similarly, the U.S. government finally got the attention of the Chinese government with respect to intellectual property rights protection when the U.S. Trade Representative threatened to impose trade sanctions on $1 billion worth of goods in 1995.

Overall, however, the message we have sent has been that we fear confrontation above all. Ours has been a strategy of accommodation, both to the Chinese government and to U.S. companies investing in and trading with China. Meanwhile, the Chinese government accelerates its mercantilist growth strategy, consolidating political, economic, and military power.

The issue of greatest concern to the AFL–CIO is the Chinese government's repression of free and independent labor unions. Attempting to organize a union independent of the Communist Party is a crime. Worker activists whose only crime was to promote a discussion of labor rights under China's legal framework have been sentenced to the Laogai, China's system of forced labor camps. Labor union organizers (or those who write or speak about such a possibility) actually face longer sentences than students or intellectuals—maybe because the establishment of free labor unions poses a greater threat to the government.

Certainly, historically, free trade unions have contributed to strong democracies, to vibrant political debates, and to the establishment of a stable middle class. If the Chinese government's goal is to preserve power and concentrate the benefits of growth in its own hands, maybe it is right to fear an independent labor movement.

While a large majority of all foreign or mixed enterprises have union representation, in fact most of these unions serve to control workers, not to represent them. Australian academic Anita Chan has reported, for example, that in the Minhang district of Shanghai, 67% of union leaders are on the managerial staff of companies, and 20% are Communist Party officials.

Many "organized" workers are not even aware of the existence of a union in their own factories. U.S. investors implicitly endorse this charade by their silence.

China's official unions do not attempt to conceal their subservience to the Communist Party. In 1994, the All China Federation of Trade Unions' (ACFTU) official magazine declared that, "The premise for unions [in China] is to carry out the tasks of the party." In 1995, the ACFTU General Secretary reaffirmed this position, saying that, "Unions in China should resolutely uphold the unitary leadership of the party. Unions at all levels should maintain a high degree of unanimity with the party politically, in ideas and actions."

Working conditions in industries such as toys, apparel, and electronics, in which there is significant foreign investment, are unacceptable and, in many cases, illegal: excessive hours worked, violation of minimum wage laws, poor health and safety conditions, physical abuse by managers, and illegal levies and deductions. Deplorable working conditions and phony unions may, in the end, undermine the very stability U.S. multinational corporations have sought to foster in China.

It is an ongoing scandal that companies owned by the Chinese People's Liberation Army continue to sell their goods in American stores. Harry Wu, the Chinese human rights activist, revealed recently that K–Mart purchased 73 tons of men's rainwear and ponchos in 1996 from China Tiancheng, a company the U.S. Defense Intelligence Agency confirms is owned by the People's Liberation Army General Political Department.

The Chinese have failed to comply with the 1992 Memorandum of Understanding on prison labor. Forced labor products continue to come into our country. Just recently, evidence was provided to the Senate Foreign Relations Committee concerning binder clips and auto parts produced in Chinese prisons.

U.S. policy toward China makes American consumers its unwitting accomplices. When Americans go shopping, they shouldn't have to support the repressive Chinese military apparatus, buy goods produced in forced labor camps, or subsidize the profits of companies that treat their workers disgracefully.

Last year, the United States racked up a merchandise trade deficit with China of almost $40 billion. In the first three months of this year, that deficit was up by 38%. The Chinese deficit may surpass our deficit with Japan soon; the only difference is that our exports to Japan are much greater than those to China. Last year, we exported $68 billion worth of goods to Japan, but only $12 billion to China.

For all the attention given to Japan's trade barriers, Japan's market looks open in comparison to China's. For all the hoopla about the size of the Chinese market, the United States sold more last year to Belgium, Singapore, and the Netherlands. And for all the talk about the jobs supported by U.S. exports to China, nine out of the top ten trade surplus categories last year were raw materials and intermediate goods: fertilizers, cotton, cereals, wood pulp, rawhides, etc. The top ten deficit categories, in contrast, were virtually all manufactured goods. (See Table.)

U.S.-China Trade Balance, Top Ten Items, 1996

($ Billions)

U.S. Surplus		U.S. Deficit	
Aircraft	1.681	Electrical Machinery	7.474
Fertilizers	.890	Toys & Games	7.368
Cotton	.615	Footwear	6.383
Cereals	.440	Apparel Articles	5.018
Wood Pulp	.187	Leather Articles	2.623
Raw Hides	.116	Furniture, Bedding, Cushions	2.297
Manmade Fibers	.108	Machinery	2.172
Animal & Veg. Fat & Oils	.106	Plastics & Articles thereof	1.338
Aluminum & Articles thereof	.105	Optical, Photographic	1.051
Copper & Articles thereof	.043	Prepared Feathers & Down	.604

Source: U.S. Department of Commerce, National Trade Data Bank.

China's policy of extorting technology transfers and investment from American companies interested in selling in China is costing the United States good jobs in the aircraft and automotive sectors today. More serious, transferring technology—much of which has been subsidized by American taxpayers—will impose much greater costs ten and twenty years from now, as American companies give away their technological advantage for short-term market access. Already, U.S. aircraft exports to China have fallen 23% from their peak in 1993.

In other words, the dream of a massive consumer market in China remains just that. Revoking MFN now would impose greater costs on China than on the United States. That is one of the only advantages of having a trade relationship where imports exceed exports by more than four to one. Yes, it would also impose some short-term costs on American businesses, consumers, and workers. But in the long run, encouraging China to develop down a democratic, egalitarian, and sustainable path will be infinitely more in the interest of both countries than our present set of policies, which have utterly failed to bring about necessary and long-overdue change.

The AFL–CIO supports trade expansion, international engagement, and equitable development. But the Chinese government is not engaging in free trade, and we help neither the Chinese people in their aspirations nor our own workforce by ignoring this basic fact.

Mr. Chairman, members of the Committee, thank you for your time and attention.

Mr. HOUGHTON. Thank you very much.
Mr. O'Quinn.

STATEMENT OF ROBERT P. O'QUINN, POLICY ANALYST FOR INTERNATIONAL ECONOMICS AND TRADE, ASIAN STUDIES CENTER, THE HERITAGE FOUNDATION

Mr. O'QUINN. Thank you, Mr. Chairman.

Americans believe that freedom is the natural right of every human being. In defiance of this belief in human rights, China's authoritarian regime has repeatedly violated the rights of the Chinese people.

For example, the U.S. State Department alleges that China silences public dissent against the government and the Communist party. China requires churches, mosques, synagogues, and temples to register with the government and abide by the regulations of various patriotic organizations.

And finally, China maintains a one-child policy that punishes couples for having more than one child with fines, withdrawal of social services, and loss of employment in the government sector. Such human rights abuses justifiably outrage the American people.

However, the question before Congress is not whether the People's Republic of China has an authoritarian government that disrespects human rights; clearly, China does. Rather, the question is whether maintaining a normal trading relationship, which is known by the archaic legal term "most favored nation," is more likely than revoking MFN to improve living conditions for the Chinese people, to foster their freedom, to enhance the emergence of democracy in China, and to improve the economic welfare of the American people.

I firmly believe that maintaining China's MFN status serves the interests of both the American and Chinese people for the following reasons:

First, MFN advances the cause of freedom in China. American trade and investment strengthens the private sector in China and weakens Beijing's authoritarian regime. In 1979, Paramount Leader Deng Xiaoping bet against history that the Communist Party could introduce a market economy while maintaining a political dictatorship in China. Beijing is now like a man standing astride a small stream when the winter snowfall begins to melt. As the climate for economic freedom warms, the stream grows from a trickle into a torrent. As time passes, the banks will erode and the man will eventually fall into a mighty river and drown. The United States should gladly accept Deng's wager; this bet is one Beijing is sure to lose.

American trade and investment fosters the growth of private enterprises in China. As more and more Chinese entrepreneurs hire workers away from the state sector, the Chinese people are becoming less dependent on Beijing's authoritarian regime for life's necessities. American trade and investment improves the lives of ordinary people.

Take the example of Zhu Wenjun, a former teacher outside of Shanghai, who was working for $25 a month and is now employed

in a factory exporting clothing and textiles for $360 a month. She noted to the New York Times that, "You used to be a teacher for life; now you can switch jobs. Now I am talking with people overseas."

Or take the example of Ye Ziuying, a 26-year-old woman working in a small town in Guandong Province. Because of economic liberalization and trade, she rose from making $35 a month in a state-owned factory to earning more than $1,200 a month. In fact, this enabled her not only to buy her own house but to pay the $1,800 government fine to enable her to bring a second child into the world rather than having a forced abortion.

MFN is a tool for bringing about freedom in China, and this I think we can agree on. But revoking MFN would harm both Hong Kong and Taiwan, two long-time friends of the United States. The government of Hong Kong estimates that Hong Kong's flow of trade would decline 8 percent by cutting off MFN, reducing their gross domestic product by 2.8 percent and causing 86,000 Hong Kong workers to lose their jobs.

And as Governor Chris Patten noted, for the people of Hong Kong there is no comfort in the proposition that China reduce—that if China reduces their freedom, the United States will take away their jobs. For Taiwan, whose economy is increasingly integrated with the mainland, revoking MFN could provoke a recession. There is no reason that Congress should inadvertently deliver a knock-out punch to Taiwan, a long-time friend and fledgling democracy.

In summary—and the other points are in my written statement—maintaining a normal trading relationship with China is more likely than revoking MFN to advance the cause of freedom. I understand the desire of many Members and Senators to do something about China. However, when contemplating the trade legislation, Congress should recall the wise admonition contained in the Hippocratic oath: First do no harm. Revoking MFN harms both the American and Chinese people.

[The prepared statement follows:]

Statement of Robert P. O'Quinn, Policy Analyst for International Economics and Trade, Asian Studies Center, The Heritage Foundation

Mr. Chairman and members of the Subcommittee on Trade, I am Robert P. O'Quinn, Policy Analyst for International Economics and Trade in the Asian Studies Center of The Heritage Foundation. Thank you for inviting me to testify about renewing Most Favored Nation (MFN) status for the People's Republic of China.

As Americans, we believe that freedom is the natural right of every human. To quote from the Declaration of Independence, "WE hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness (sic)."

In defiance of the Declaration's universal principles, China's authoritarian regime has repeatedly violated the rights of the Chinese people. In its China Country Report on Human Rights Practices for 1996, the U.S. Department of State alleges:

- China silences all expression of public dissent against the government and the Communist Party by intimidation, administrative detention, prison sentences, and exile.
- China requires all churches, mosques, synagogues, and temples to register with the government and abide by the regulations of various "patriotic" associations. If religious organizations fail to register, China suppresses them through threats, demolition of unregistered property, extortion, interrogation, detention, and prison sentences.

• China maintains a "one child" policy that punishes couples that have more than one child with fines, withdrawal of social services, and the loss of employment at state-owned enterprises and government ministries. While Beijing does not compel women to have abortions as a matter of policy, international human rights organizations have documented instances where local officials have forced women to undergo abortions or sterilizations.

Such human rights abuses justifiably outrage the American people.

The question before Congress is not whether the People's Republic of China has an authoritarian government that does not respect human rights. Clearly, China does. Rather, the question is whether maintaining a normal trading relationship, which is known by archaic legal terminology as Most Favored Nation, is more likely than revoking MFN to improve living conditions for the Chinese people, to foster greater freedom, to promote a peaceful evolution toward democracy in China, and to enhance the economic welfare of the American people. I believe that maintaining China's MFN status serves the interests of both the American and Chinese people for the following seven reasons:

1. MFN Advances the Cause of Freedom in China

American trade and investment strengthens China's private sector and weakens Beijing's authoritarian regime. In 1978, Paramount Leader Deng Xiao Ping bet against history that the Communist Party could introduce a market economy while maintaining a political dictatorship in China. Because of economic reform and trade liberalization, Beijing is now like a man standing astride a small stream when the winter snowfall begins to melt. As the climate for economic freedom warms, this stream grows from a trickle into a torrent. As time passes, the banks will erode. The man will then fall into the mighty river and drown. The United States should gladly accept Deng's wager; Beijing is sure to lose this bet.

American trade and investment fosters the growth of private enterprises in China. Authoritarian regimes survive by keeping their people poor and economically dependent on the government. As expanding trade allows Chinese entrepreneurs to hire more and more workers away from the government sector, the Chinese people are becoming less dependent on Beijing's authoritarian regime for life's necessities including food, shelter, education, health care, housing, and old-age pensions.

American trade and investment improves the lives of ordinary Chinese people. For example, economic reform and trade liberalization have transformed the life of Zhu Wenjun, a 45 year-old woman living outside of Shanghai. Zhu quit her job as a teacher in a government school that paid $25 a month to work for a company exporting clothing and toys for $360 a month. The New York Times quoted Zhu, "It use to be that when you became a teacher, you were a teacher for life. Now you can switch jobs. Now I am talking with people overseas and thinking about economic issues."

American trade and investment even undermines China's notorious one-child policy. The New York Times also reported about Ye Ziuying, a 26 year-old woman that runs a small clock shop in Dongguan, a small town in Guandong province. Because of economic reform and trade liberalization, she rose from a $35 a month worker in state-owned factory to an entrepreneur earning $1,200 a month. Along with buying her own home, she was able to pay the $1,800 government fine so she could have a second child.

American trade and investment is a time bomb that will ultimately eviscerate Beijing's authoritarian government. Economic reform and trade liberalization are creating a new Chinese middle class, a necessary prerequisite for successful democratization. In Chile, South Korea, Taiwan, and Thailand, economic liberalization in one generation produced a large, well-educated, financially secure middle class in the next that demanded political freedom and won democracy.

2. MFN Exposes the Chinese People to Democratic Values

The best ambassadors for democratic values are ordinary Americans. Through trade and investment, the Chinese people can meet ordinary Americans and learn about democratic values. American companies doing business in China provide the Chinese people with practical lessons about economic freedom, adherence to the rule of law, and ethical business conduct.

An evangelical organization, Christian Voice noted, "[O]ne will find strong pro-MFN sentiment among China's religious community, notwithstanding their persecutions by Chinese authorities. They recognize that having an open trade door to the West—along with its concomitant transmission of political, religious, cultural, economic, and social values—provides the best hope for transforming China over the long haul."

3. Revoking MFN Would Slow the Progress Toward Freedom in China

Like other economic sanctions, revoking MFN is unlikely to achieve its proponents' objective of promoting freedom in China. In a comprehensive study of all economic sanctions imposed worldwide between 1914 and 1990, Gary Hufbauer, Jeffrey Schott, and Kimberly Ann Elliott found that economic sanctions failed to achieve their stated objectives in 66 percent of the 116 cases studied. None of the special factors that Hufbauer, Schott, and Elliot cited as necessary for at least partial success (such as a historic parent-colony relationship between the sender country and the target country and a weak economy in target country that is highly dependent on trade and investment with the sender country) are present in the case of China.

No other country would follow the United States and terminate its trade and investment ties to China. Therefore, revoking MFN would not pose a sufficient economic penalty on China to cause Beijing to change its objectionable policies. According to the World Bank, revoking MFN would cause a shock that would reduce China's gross domestic product by 6.5 percent immediately. However, China could quickly re-orient its exports to other countries, so its economy would fully recover from MFN revocation within two years.

Instead, revoking MFN may cause Beijing to resist more strongly than ever American demands for improving human rights. After President Clinton imposed an unilateral prohibition on new investment in Myanmar on May 20, 1997, the leaders of the Association of South East Asian Nations (ASEAN) defied American objections and decided to admit Myanmar to ASEAN on May 31. This should serve as a warning to Congress that revoking China's MFN status could backfire.

4. Revoking MFN Would Harm Hong Kong

Hong Kong's economy would suffer greatly because a large of portion of Hong Kong's trade involves transshipping goods between the People's Republic of China and the United States. The Government of Hong Kong estimates that revoking MFN would decrease Hong Kong's trade flows by 6 percent to 8 percent, reduce Hong Kong's gross domestic product by 2.0 percent to 2.8 percent, and cause 61,000 to 86,000 Hong Kong workers to lose their jobs. As Hong Kong Governor Chris Patten wryly noted, "For the people of Hong Kong there is no comfort in the proposition that if China reduces their freedom, the United States will take away their jobs."

All of the people of Hong Kong strongly support renewing China's MFN status. Democratic Party leader Martin Lee has warned Congress that "Hong Kong would be hurt first and badly so" by revoking MFN. Indeed, revoking MFN would give Beijing a pretext to intervene and further curtail freedom in Hong Kong after its reversion to China.

5. Revoking MFN Would Harm Taiwan

Taiwan's two-way trade with China exceeds $20 billion, and Taiwan has invested more than $20 billion in the mainland. Taiwanese companies have relocated many of their low-skill, labor-intensive manufacturing operations to the mainland. Today, Taiwanese exports contain many components from the People's Republic of China. Revoking MFN would disrupt these trading relationships and possibly send Taiwan's economy into a recession. In trying to send a message to Beijing, Congress should not inadvertently deliver a knock-out punch to Taiwan, a long-time friend and fledging democracy.

6. Revoking MFN Would Increase Taxes on the American People

Tariffs are taxes. Revoking MFN would hike the average tariff on Chinese imports from approximately 4 percent to 50 percent. That amounts to a $16 billion tax increase, falling most heavily on poor Americans who would no longer be able to buy low-price clothing and shoes made in China for their families. It make no sense for Congress to protest the misdeeds of the Chinese government by raising taxes on the American people through the revocation of China's MFN status.

7. Revoking MFN Would Jeopardize the Jobs of 200,000 American Workers

In 1996, China bought approximately $14 billion of goods and services from the United States. These exports support approximately 200,000 high-paying American jobs. Moreover, the People's Republic of China is one of the fastest growing markets for American businesses. If Congress were to revoke China's MFN status, Beijing would certainly retaliate by imposing prohibitive tariffs on American imports. Companies in the European Union, Canada, Japan, Australia, South Korea, Taiwan, and

other Asian countries would view MFN revocation as a golden opportunity to expand their share of China's vast market at America's expense. In the end, the Chinese would buy what they desired in other countries. Revoking MFN simply shifts export sales and related jobs from the United States to other countries.

In summary, maintaining a normal trading relationship with China is more likely than revoking MFN to advance the cause of freedom within China. I understand the desire of many Members and Senators to "do something" about China. However, when contemplating trade legislation, Congress should recall the wise admonition contained in the Hippocratic oath, "First, do no harm." Revoking MFN harms both the American and Chinese people.

Mr. HOUGHTON. Thank you very much, Mr. O'Quinn. And I appreciate the testimony of everyone here.

You know, one of the big problems we have is that if our standards were as high as we would really like, we wouldn't trade with anybody. I mean, Afghanistan, Cuba, Laos, North Korea, and Vietnam are the only countries that do not have our most-favored-nation treatment, whether it is a permanent thing or done on an annual basis. Yet there are lots of other countries that are sort of miserable in the way they operate their human rights, intellectual property rights, or their trading practices. So it is a real issue.

And you—I guess it was Mr. Moore—were talking, just before your chart, about China and that before being admitted to the WTO, it should end subsidization of its exports. We don't like that; it is a lousy idea, and I have talked to the AFL–CIO many times, but you have got to work at this thing gradually. Dumping exports in foreign markets—I was in a company that almost went out of business because of dumping practices, not from China but Japan.

Next, China must open its markets to imports. It must do that; it should do that; it ought to do that. The question is, how do we get at it? Do we get at it with a cleaver, or just gradually, with a scalpel? And it is tough.

And here you have the human rights issue—which, Mr. Hall, you talked about—and obviously the concept of democracy, and you all talked about Hong Kong. How do you get at it? Do you do it this way?

I think, having myself—and I give you my own subjective feeling—having done business in China for many years, that the one thing you cannot do is back these people into a corner. Then they react in the wrong way. They don't react the way we would react. And so you take your future in your hands by judging people like this by your own standards.

It is really a tough one, because I don't think any of us could sit here and say that we like many of the issues, whether it is currency, human rights, democracy, Taiwan and Hong Kong, or what they are doing as far as unfair labor wages and things like that. But how do you get at it?

Look, I have got to go for a vote. Would you like to sort of sum up? Are there any other things you would like to add before you leave?

Mr. MOORE. Mr. Chairman, I would like to add one point specific to your concern. Because it is a very difficult question: How do you bring about reform? But it seems to me that the connection we try to build—we have tremendous leverage over China in two ways.

One, they want to join the WTO very badly. The WTO accession agreement is really a blank page, and countries who are already members of WTO can write what they want on that page. And that can be the price of admission for China.

Mr. HOUGHTON. Well, not really. I mean——

Mr. MOORE. Well, almost.

Mr. HOUGHTON. Well, not almost. They are not going to get into the WTO by handing back a blank page. There are other people——

Mr. MOORE. No. What I meant was that the United States and the European Union can put in whatever conditions they want, whether or not it is necessarily consistent with being a member of the WTO. If they say that China has to eliminate illegal export subsidies and China agrees to do that, then that is part of the price of admission. We think there is a great opportunity to reform China's system in a major way. And one of the greatest pieces of leverage we have is whether or not we grant them MFN treatment.

Mr. HOUGHTON. No, no; I think you are confusing the two things, WTO and MFN.

Mr. MOORE. No, sir; I am linking them on purpose. I am saying that if Congress were to withhold the MFN status pending China's agreement on the reforms that are needed to become a full-fledged member of the community of nations in WTO, I think China would agree, by and large.

Mr. HOUGHTON. That is an opinion, and it may be true.

Mr. MOORE. It is an opinion, yes, sir.

Mr. HOUGHTON. But I do think they are separate issues or you can separate them.

Have you got any other comments, Mr. Hall or Mr. O'Quinn?

Mr. O'QUINN. I will make a very brief comment, Mr. Chairman, knowing that you have to go and vote.

First of all, I would agree that WTO accession is the best opportunity we have to promote economic reform and liberalization in China. And I think both the Bush administration and Clinton administration have understood this and pursued it in a very deliberate manner. I think Charlene Barshefsky is to be congratulated for how she has conducted those negotiations to date.

I would say also that there are a variety of levers that the United States can use on China to deal with a variety of issues, and we have focused exclusively on economic levers, particularly renewing MFN status. I think it has been shown historically to be more effective to use noneconomic levers, such things as denying China the right to host the Olympics. Various diplomatic measures that we can take can be targeted specifically at the leadership rather than the general economy of China. Casting out this wide net hurts ordinary Chinese people and Chinese entrepreneurs, the very sectors of Chinese society that we want to strengthen and encourage.

So I think that what we need, in terms of using tools or sanctions, is to focus very narrowly and specifically on the leadership; they can be primarily noneconomic in character.

Mr. HOUGHTON. All right. Thank you.

Ms. Shailor?

Ms. SHAILOR. Yes, thank you, Mr. Chairman.

I think a very strong message from the U.S. Congress revoking MFN will ultimately strengthen the administration's ability to deal with the issues related to integrating China into the World Trade Organization. In fact, rather than weakening it, certainly the will of this body and the acknowledgment that the situation has not improved over the last 17 years will send a signal to the Chinese to begin to improve conditions. They have only improved when they have been presented with possible trade sanctions before.

Mr. HOUGHTON. If I understand it correctly, you and Mr. Moore both feel that MFN and the World Trade Organization should be linked?

Mr. MOORE. I certainly do, yes, sir.

Mr. HOUGHTON. And do you feel that?

Mr. HALL. No, Mr. Chairman, we do not. Revoking MFN hurts American workers a great deal, so we don't need to revoke MFN. We clearly need to pass MFN this summer.

We can put all the conditions we want on China—I am sure we would have disagreements on what kind of conditions—but we can look at negotiating a commercially meaningful WTO accession agreement. We can do that, but let's not link the two, Mr. Chairman.

Mr. HOUGHTON. But you would feel that an entirely different set of criteria ought to be used as far as the World Trade Organization accession?

Mr. HALL. That is correct.

Mr. O'QUINN. That is correct, and I will submit a very detailed paper I have on China's accession and what we should ask for, for the record.

Mr. HOUGHTON. I would like to see that as, I am sure, would other Members of the Subcommittee.

[The information is being retained in the Committee files.]

Mr. HOUGHTON. I am sorry; it is the first day back and many people are not here. There are a whole set of things going on. If you would like to submit other information, please do. Thank you very much.

The Subcommittee on Trade hearing on extending MFN trade status to China is adjourned.

[Whereupon, at 5:13 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Eugene Milosh, President, American Association of Exporters and Importers (AAEI)

INTRODUCTION AND BACKGROUND

Good morning, Chairman Crane and members of the Trade Subcommittee. My name is Eugene Milosh, and I am President of the American Association of Exporters and Importers (AAEI).

AAEI is a national organization, comprised of approximately 1,000 U.S. company-members who 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 1997. 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 $14.4 billion in U.S. goods and services last year.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most other countries, maintains two complete tariff schedules—one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products, so that the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI Supports Unconditional MFN Renewal

AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As 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 the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as 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 has continued to grow at an annual rate of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is the essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S./China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese Government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Terminating MFN for China would not simply result in higher tariff rates for some imported goods; it would sever the basic economic—and, consequently, geopolitical—relationship between the two countries. It would also strengthen those in China who desire to see the People's Republic turn inward again, away from ideologically threatening capitalist influences, and would weaken those liberalizing forces that we seek to encourage. This would be particularly unfortunate while the leadership situation in China remains unsettled.

China's Post-June MFN Status Should Be Renewed

AAEI supports the President's human rights objectives. For reasons noted above, we do not believe that the unilateral threat to eliminate MFN—and the uncertainty associated with annual MFN debates—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.

There are a number of other reasons for supporting the continuation of MFN treatment for China. Trade with China must be kept open to maintain benefits to U.S. industry of a bilateral economic relationship with China. Failure to renew MFN would threaten the jobs of thousands of U.S. workers producing goods for export to China and would harm American businesses relying on Chinese imports for their livelihood. Tariffs, which are at an average 4%–5%, would skyrocket to as high as 110% in some cases, increasing costs to American consumers by billions of dollars. In many cases, this increased cost would be inflationary and fall most heavily on those Americans least able to bear the burden.

AN MFN CUT-OFF WOULD HARM U.S. IMPORTERS

The loss of China's MFN status would also have both immediate and long-term consequences for AAEI members and the entire importing community. In the short-term, they would incur significant losses on merchandise already contracted for sale at a specific price, but not yet delivered. Payment for these orders are often guaranteed by irrevocable letters of credit. If duty rates increased from Column 1 to Column 2 levels before Customs clearance, these companies would be required to absorb the increases or pass them on to American consumers. American companies and American consumers, not Chinese, are harmed by increasing duty rates for merchandise which was previously ordered.

Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to businesses than duty increases. Many consumer products imported from China are not available in the U.S., and alternative sources of supply overseas would likely be much more costly than Chinese goods, of lesser quality, or unavailable altogether. The difficulties and uncertainties of trade with China have already pushed U.S. importers to search for alternative sources of supply. With the long lead times necessary for orders in many industries, some companies could easily lose a whole season, or even a whole year. This could cause major economic hardship. Companies would be forced to raise prices on goods, with consumers bearing the ultimate burden. In most cases, U.S. producers would not benefit from a cut in supply of Chinese products. Yet, a reduction in supply of these basic consumer items would cause considerable hardship to Americans with limited or fixed incomes who purchase basic-necessity consumer goods imported into the U.S. from China. With the growing threat of a higher inflation rate, this a poor time to increase the U.S. cost of living.

MFN withdrawal from China would produce devastating inflationary repercussions, potentially crippling the U.S. retailing industry. There is no country on earth that could easily replace the vast quantities of low price consumer and industrial products, currently sourced from China. Sudden inflation, caused by MFN withdrawal, would lead to skyrocketing interest rates and consequently undermine economic assumptions made in the Budget Reconciliation Bill before Congress. U.S. economic growth would, in turn, come to a standstill and the stock market would react with loss in equity values.

Termination of China's MFN status could also make it difficult for U.S. companies to obtain products which are not easily accessible from other countries. In the case of textiles and apparel, U.S. quotas limit the amount of merchandise which can be imported from foreign countries. Thus, even countries which might have the ability to provide a somewhat competitive supply of a particular product may be unable to do so because they have filled their "quota" for the year. Furthermore, when quota is in short supply, as it most certainly would be if China MFN status were terminated, U.S. importers would pay a premium for quota itself, and provoke quota calls based on surges from countries not under quota.

AN MFN CUT-OFF WOULD ALSO HARM U.S. EXPORTERS

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant, and very promising, market for U.S. exports, with approximately $14.4 billion worth of American goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S.-China trade and investments will be $600 billion in the next five to seven years. Historically, China has been quick to retaliate against foreign countries perceived as interfering with domestic issues. It would not be surprising for China to withdraw MFN for

American goods and services and to limit U.S. investment and government procurement opportunities in response to elimination of MFN for Chinese goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly $500 million worth of annual U.S. agricultural exports to China. More recently, U.S. aircraft exports have been threatened.

Unilateral U.S. action against China would cause a severe blow to U.S. exports to China. In addition to a possible loss of $14.4 billion in U.S. exports, loss of the Chinese market would have a significant impact on some of our most competitive industries—agriculture, aircraft, heavy equipment, machinery, telecommunications and chemicals. And, with our Western allies keeping the door open for many of their goods to China, the hard-won U.S. market share could disappear overnight, resulting in lost jobs in the export sector of the U.S. economy and an increase in the trade deficit. It would be truly ironic if the net result of the last few 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.

Beyond the immediate loss of business in China and Hong Kong, an MFN cut-off would significantly jeopardize long-term U.S. commercial interests in the region. A Sino-American trade war would deprive U.S. companies of important business relationships and opportunities at a critical time in the growth of the Chinese economy.

China's economy has grown rapidly in recent years, at an average annual rate approaching 10%, and is poised for major expansion over the next decade. According to an IMF study, China's economy is now the world's third largest. Some predict it will be the largest economy in the world by the year 2010, or the year 2020 at the latest. U.S. companies have established a major presence in China, providing an ideal foundation for future expansion. A trade breach would threaten this foundation. It would also provide U.S. competitors in Asia and Europe with a major advantage.

MFN Trade Sanctions Would Be Counterproductive

Unilateral trade sanctions imposed for foreign policy purposes have a very poor history of effectiveness. They serve mainly as symbolic gestures, often at great expense to U.S. economic interests, U.S. exports and foreign market share, and consumer prices.

Elimination of China MFN, and the resulting withdrawal of U.S. business from China, would decrease Chinese exposure to Western values and free market ideas which have clearly played a part in China's move toward trade liberalization and a market economy. Liberalized, market-oriented sectors, such as those in South China, would be the first to be injured or even shut down if MFN were withdrawn, and Chinese authorities would direct business back to state-owned enterprises. Terminating MFN would merely enable Chinese authorities to blame the U.S. government for its current domestic economic problems, further strengthening hard-line, anti-Western elements in the government.

Furthermore, sanctions run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Hong Kong accounts for two-thirds of all foreign investment in China and one-third of China's foreign exchange, and is the port of entry and exit for much of the world's trade with China, especially that of the United States. Because of the unique combination of communications, financial and technical support, established and reliable legal system, and common language available in Hong Kong, more than 900 American companies have established a significant presence there, and of these, approximately 200 have chosen Hong Kong as their base for business operations throughout the region.

The damage to Hong Kong resulting from an MFN cut-off would seriously jeopardize Hong Kong's continued ability to serve this important role for American companies as entrepot and investment "gateway" for China and the region. According to Hong Kong Government estimates, if the U.S. denied MFN for China, Hong Kong could suffer a reduction by 32% to 45% (or $9.4 billion to $13.3 billion) worth of re-exports from China to the U.S. Together with other related trade flows, there might be a reduction of 6% to 8% (or $22.5 billion to $31.8 billion) worth of Hong Kong's overall trade, a loss of approximately $3.1 billion to $4.3 billion in income and approximately 61,000 to 86,000 jobs as a direct impact. Damage to Hong Kong would also have counterproductive effects on political and economic reform in China. Hong Kong is South China's most important source of external investment, with Hong Kong companies providing employment to three million people in Guongdong Prov-

ince alone. The impact of MFN removal would be felt disproportionately there, weakening the very forces of liberalization key to future economic and political progress in China, and Hong Kong's security and well-being. The people of Hong Kong would be put at risk should Hong Kong, as it now functions, become less valuable to China.

Finally, the U.S. should not unilaterally act without the support of our major trading partners. Unless multilaterally imposed, sanctions are certain to be unsuccessful and the U.S. could run the risk of alienating its allies.

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 projectionist 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.

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.

On behalf of the American Association of Exporters and Importers, I wish to thank Chairman Crane and the Trade Subcommittee for this opportunity to present the views of our membership on this important issue.

Statement of the American Chamber of Commerce in Hong Kong

INTRODUCTION

China's emergence as a world power presents the United States with a major challenge as well as a major opportunity. Having taken its rightful place in the community of nations, a stable, prosperous and peaceable China has much to offer the U.S. and the world at large. With China's co-operation, U.S. efforts to promote global free trade, prevent the spread of weapons of mass destruction, take action through the United Nations, ensure the security of northern Asia, and reduce global environmental damage stand a greater chance of success. To this end, the U.S. should seek China's responsible participation in the world community. China should be encouraged to take on an international role commensurate with its economy, population and size, and to shoulder the attendant burdens and responsibilities.

To meet the challenge posed by China's rising influence, the U.S. must craft a policy toward China that best serves long-term national interests. In the conduct of this policy, the U.S. should seek to cultivate greater mutual confidence, while working on issues that advance mutual interests. A constructive relationship with China cannot be built on the recrimination that has marked U.S.-China relations the past. Building trust and confidence will require that U.S. and Chinese officials at all levels meet regularly, not just when relations have reached an impasse. Whenever appropriate, the U.S. should also invite China to participate in gatherings of the world's leading countries.

A successful China policy requires that the president take the lead in explaining to Congress and the American people the rationale for improved relations with China. The president and his cabinet must necessarily acknowledge that the two countries have real political, economic, and cultural differences, and then explain the importance of bridging those differences. A well-reasoned, clearly articulated policy toward China will attract broader political and popular support in the U.S. and provide an enduring framework for amicable and mutually beneficial U.S.-China relations.

TRADE

Trade forms a cornerstone of U.S.-China relations, with both countries benefiting considerably from greatly expanded bilateral trade and investment since 1978. Last year, bilateral merchandise trade exceeded US$63 billion. By the end of 1995, approved U.S. investment in China reached an estimated US$28 billion in roughly 20,000 projects, making the U.S. the third largest investor in China after Hong Kong and Taiwan. Yet both countries maintain obstacles to even broader trade relations: the U.S. has refused to grant China permanent most-favored-nation tariff treatment; China, on the other hand, has denied American companies fair access to its markets.

World Trade Organization: The U.S. should make every effort to bring China into the World Trade Organization (WTO) on terms that comply with current international norms, but that also which acknowledge China's particular economic situation. China's accession agreement should include explicit timetables that allow China to bring its economy and commerce into compliance with WTO standards within a reasonable period of time on an industry-by-industry basis. The agreement should require that China commit to further tariff reductions, the elimination of non-tariff barriers, increased market access for foreign products and services, national treatment for foreign companies, the reduction and eventual elimination of performance requirements, and the phase-out of subsidies to state industries.

Most-Favored-Nation Trade Status: China's full entry into the world trade system demands that other nations grant it the same trade treatment afforded the vast majority of other nations. Without permanent most-favored-nation status, China has less incentive to make the painful economic adjustments that full participation in the international trade system requires. Congress should positively consider and the administration strongly support legislation giving China permanent most-favored-nation tariff treatment. The U.S. cannot expect that China will accept the responsibilities and burdens of membership in the world trade system when the U.S. refuses to grant it, without reservation, treatment normally only denied a nation's enemies.

Tiananmen Sanctions: The U.S. should immediately lift sanctions that prohibit the Overseas Private Investment Corporation and Trade Development Agency from providing assistance to American companies competing for business in China. These

sanctions punish American business far more than they do their intended target. Prohibitions that bar the U.S.-Asia Environmental Partnership from operating in China should also be lifted. Providing assistance to American companies selling modern environmental technology and equipment in China will not only increase U.S. exports, but also enhance the health and welfare of Chinese citizens, and help reduce global pollution.

Joint Commission for Commerce and Trade (JCCT): Established in 1983, the JCCT provides an excellent forum for high-level bilateral discussions on trade and investment issues. The JCCT should continue the task of resolving differences in two-way trade accounting and complex issues of methodology in reporting trade balances. The JCCT also plays a productive role to facilitate greater U.S. business involvement in China.

HONG KONG

Both China and the U.S. have an abiding interest in Hong Kong's continued prosperity and stability after the territory returns to Chinese rule this year. In addition to economic benefits, Hong Kong's successful transition to Chinese sovereignty will bring China enhanced prospects for a peaceful resolution of its differences with Taiwan. U.S. interests include the over 36,000 American citizens who reside in Hong Kong, bilateral merchandise trade totalling almost US$24 billion in 1996, and investments worth an estimated US$14 billion through 1995.

Hong Kong's tremendous success rests on various attributes, including a strong and independent legal system, the free passage of people and goods, non-discriminatory government policies, a freely convertible currency, the free flow of ideas and information, minimal levels of corruption and coercion, and a world-class infrastructure. The U.S. should support the preservation of these attributes in order to maintain the territory's prosperity and stability, the livelihood of the Hong Kong people, and the viability of American economic interests in Hong Kong. In this regard, the U.S. should make clear that international confidence in Hong Kong's future as an international business center depends on Hong Kong being governed by the terms of the Joint Declaration and the Basic Law. For its part, Congress should consider carefully before pursuing additional legislation concerning Hong Kong. Current U.S. law, as embodied in the U.S.-Hong Kong Policy Act, already requires that the U.S. monitor developments in Hong Kong and provides adequate remedies should China fail to meet its internationally recognized obligations regarding the territory.

TAIWAN

Taiwan's future remains the most troublesome issue in U.S.-China relations; the one issue that could conceivably bring both countries into open conflict. Friendly bilateral relations and stability in the region depend on peaceful accommodation between the People's Republic of China (PRC) and Taiwan. Consequently, the U.S. must stress to the PRC and Taiwan that they must avoid a violent resolution of the issue.

Although Taiwan's economic influence and close trade relations with the U.S. require continued dialogue and co-operation, as elaborated in the Taiwan Relations Act, the U.S. should adhere to the to three joint communiques on Taiwan. The U.S. must recognize that China will interpret attempts to upgrade relations as a violation of the precedent that has governed U.S. relations with Taiwan for almost 25 years. A U.S. retreat from its acceptance of a one China policy would cripple relations with the PRC.

HUMAN RIGHTS

The U.S. has an abiding interest in the way all countries, including China, treat their people. Policies that respect recognized humanitarian values, political freedoms and the rule of law also promote stronger economic growth and enhance stability. The U.S. should pursue its concerns about human rights through bilateral discussions, possibly under the auspices of an established forum or commission, and through multilateral forums such as the United Nations.

Discussions on human rights should in part address China's own interests, such as the establishment of the rule of law, and consider those forces, such as economic growth, that help underpin human rights. An ongoing dialogue on human rights also requires that the U.S. listens to China's criticisms of American human rights shortcomings. U.S. criticisms of China should acknowledge that, despite continuing political and religious repression, the lives of the great majority of the Chinese people have improved markedly since 1979. China's subsequent economic and administrative reforms have significantly reduced poverty, introduced grassroots political

pluralism, allowed wider access to information and much greater personal choice. Chinese citizens now enjoy considerably more control over employment, travel, housing and schooling than they did two decades ago.

American business has played a role in fostering these changes. Foreign trade and investment have brought into China new ideas and practices, and employed millions of Chinese workers. American companies have set the standard in China for ethical practices, respect for law, worker training, remuneration, environmental protection and dignity in the workplace. In order to promote continued American leadership on such issues, AmCham encourages member companies to adopt a set of voluntary business principles covering the ethical conduct of business activities.

Regional Security

After two decades of sustained peace in Asia, recent events and lingering historical animosities call into question the durability of this peace. The absence of established regional security institutions make the peaceful accommodation of China's growing power less certain. China's extensive territorial claims and recent military actions have caused concern among its neighbours and in the U.S. Unfortunately, strengthened security ties between the region's nations and the U.S. have raised China's fears of encirclement.

The U.S. and China should increase bilateral military ties to promote greater mutual understanding and trust. Military exchanges that discuss training, doctrine, and technology will help reduce mutual suspicion by enhancing the transparency of each country's capabilities and intentions. The U.S. should encourage the Chinese to begin such exchanges with its neighbours as well. China should be encouraged to enter regional security discussions, including those concerning competing territorial claims in the South China Sea. The U.S. should continue efforts to persuade China to play a stabilising role in the region, especially with regard to the Korean peninsula, where the two countries share mutual concerns. The U.S. should continue its dialogue with China about North Korea and give greater recognition of China's tacit co-operation with U.S. efforts in diffusing tensions between the two Koreas.

Weapons of mass destruction, and the means of their delivery, threaten not only regional security, but also global security. China has pledged to prevent the further spread of such weapons by acceding to the various international conventions governing such weapons.

The U.S. should insist that China abide by the Nuclear Non-Proliferation Treaty, the Missile Technology Control Regime, the Chemical Weapons Convention, and the Biological and Toxin Weapons Convention. The U.S. should also encourage China to join international organizations, such as the Nuclear Suppliers Group, dedicated to the control of the technologies covered under these conventions. At the same time, the U.S. should remove prohibitions that limit the export to China of civilian nuclear technology that is available from our allies, since these limitations only harm American business.

Statement of the American Chamber of Commerce, People's Republic of China, Beijing

MFN for China

Position Summary

The American Chamber of Commerce, People's Republic of China, in Beijing (AmCham China) supports, and urges Congress to uphold, the President's decision to grant unconditional MFN status to China for another year. MFN is not preferential treatment. It is the cornerstone of a normal bilateral trading relationship. Withdrawal or conditioning MFN status for China would likely result in a destructive trade war, while failing to accomplish the policy objectives of those who call for it. Further, the annual debate over China's MFN status undermines U.S. commercial interests in China and significantly strains U.S.-China relations. AmCham China also encourages the President to seek and Congress to pass at the earliest opportune time legislation extending to China permanent MFN status.

The American Chamber of Commerce in China strongly supports and urges Congress to uphold the President's decision to grant unconditional most-favored-nation (MFN) status to China for the coming year.

Despite its name, MFN status is not preferential treatment. Quite the contrary, it is the cornerstone of any normal bilateral trading relationship, and amounts to no more than what might be termed "normal trading rights." MFN status merely accords a country the same level of tariff rates the United States extends to imports from virtually all of its trading partners. Only four of the 227 countries with which the United States traded last year did not enjoy MFN status. Indeed, the U.S. affords better-than-MFN treatment to many countries.

Withdrawal or conditioning of China's MFN status would invite retaliation, which would jeopardize U.S. exports to, and business in, China. This, in turn, would give our foreign competitors an unfair advantage in the rapidly expanding Chinese economy and threaten the ability of American companies to compete throughout the Asia-Pacific region. Withdrawal of MFN would also precipitate a dramatic deterioration in our overall diplomatic relations with China, thus impeding our ability to negotiate with China on other important aspects of our relationship like nonproliferation and security in the Asia-Pacific region. No evidence suggests that revoking China's MFN status would impel China to ease its human rights stance, especially without similar pressure from China's other trading partners, who to date have shown little willingness to join the United States in multilateral sanctions against China.

Significantly, the governments of both Hong Kong and Taiwan have warned of the potential adverse effects of withdrawing MFN for China.

AmCham China further urges the President to seek, and Congress to pass, legislation extending to China permanent MFN. Annual review of the MFN status granted to non-market economies like China was originally conceived as a means to promote freedom of emigration from the former Soviet Union. China, by contrast, currently has few barriers to emigration. Using the threat of revoking MFN status to accomplish other objectives in China—be they in the area of human rights, intellectual property or the reversion of Hong Kong—has nothing to do with the original intent of the Congress. Most importantly, unilateral sanctions have proven to be a blunt instrument ineffective in producing desired changes in Chinese behavior.

The annual debate over China's MFN status undermines the credibility of American companies as reliable trade partners for China and puts at risk billions of dollars in export sales. Ending the annual review of China's MFN treatment once and for all would be a highly constructive step to strengthen and normalize the U.S.-China relationship and to ensure a stable environment for increased American exports to China. We also urge Congress to take this important step at the earliest opportune time.

About AmCham

The American Chamber of Commerce, People's Republic of China (AmCham China) is a private, non-profit organization representing more than 350 American companies doing business in China. AmCham China is committed to promoting the development of trade, commerce and investment between the U.S. and China; providing a forum for American business in China; and working with Chinese and American officials to further strengthen U.S. business interests in China.

The elected 15-member 1997 AmCham Board of Governors includes representatives of the following companies: Cargill Investments, Coudert Brothers law firm, Baker & McKenzie law firm, U.S.-China Industrial Exchange, Inc., KPMG Peat Marwick, Baskin Robbins International, Rockwell International, McDonnell Douglas, Motorola, First National Bank of Chicago, AT&T, United Technologies, Dow Jones & Company, General Motors, and Burson Marstellar public relations. Chairman of AmCham's 1997 Board of Governors is John Holden, representing Cargill Investments.

AMERICAN ELECTRONICS ASSOCIATION
June 17, 1997

The Honorable William R. Archer
U.S. House of Representatives
1236 Longworth Office Building
Washington, DC 20515–4307

Dear Mr. Chairman:

On behalf of the 3,000 member-companies of the American Electronics Association (AEA), we are writing you to underscore the importance of U.S.-China trade for American exports to Asia and for the future prosperity of the U.S. economy. We ardently support full one-year renewal of most favored nation status for China without conditions.

China is the world's third largest economy, with the world's highest annual growth rate of 9%. Demanding an estimated $750 billion in infrastructure essentials over the next 10 years, China represents a critical market for U.S. high-technology products. Currently, aggregate U.S. trade with China now totals more than $14 billion. These exports directly support more than 170,000 American jobs.

Further, if normal trade relations with China are disrupted, Hong Kong would be devastated, since its prosperity is built on trade with China. Revoking MFN for China would reduce Hong Kong's re-exports to the United States by as much as 45%; slash overall trade by as much as 8%; eliminate as many as 86,000 jobs and cut GDP growth by as much as 2.8 percentage points.

We understand that long-term improvement and stability in U.S.-China relations also requires concrete actions by China. We urge China to honor its agreements and to undertake the commitments required to join the World Trade Organization on a commercially acceptable basis. Progress has been made, but much more remains to be done.

We also share the concerns of all Americans about human rights. Our experience in doing business in China suggests that American companies can have a profound positive influence by treating their employees with respect, promoting local Chinese workers and managers to positions of real responsibility, and providing training and education. Severing U.S.-China trade would eliminate U.S. companies as a model and set back the entrepreneurial forces in Chinese society which offer the best hope for the future progress toward freedom and democracy.

Our collective goal should be to move beyond the divisive annual struggles over China's MFN status toward a stable and mature relationship which advances American goals, jobs, and prosperity. We look forward to working with you and the Administration in the coming months to achieve the shared goal of stabilizing this vital relationship.

Sincerely,

Jeffrey Dunn,
President & CEO, ACCEL Graphics, Inc., San Jose, CA

Walter A. Foley,
CEO, ACCEL Technologies, Inc., San Diego, CA

F. Grant Saviers,
President & CEO, Adaptec, Inc., Milpitas, CA

A. Tee Migliori,
President, ADC Technologies, Inc., Minneapolis, MN

John C. Overby,
President & CEO, Advanced Hardware Architechtures, Dullman, WA

Timothy M. Kramer,
President & CEO, AEA Credit Union, Sunnyvale, CA

Leonard Borow,
President, Aeroflex Laboratories, Plainview, NY

John Longfield,
COO, AIMCO, Portland, OR

Ralph S. Sheridan,
President & CEO, American Science and Engineering, Inc., Billerica, MA

Charles W. Trippe,
President & CEO, AmPro Corp., Sunnyvale, CA

Ronald Rosenmzweig,
CEO, Anadigics, Inc., Warren, NJ

Gil Amelio,
Chairman and CEO, Apple Computer, Inc., Cupertino, CA

James C. Morgan,
Chairman, Applied Materials, Inc., Santa Clara, CA

J.S. Saxena,
Chairman & CEO, Applix, Westboro, MA

Glenn Woppman,
President & CEO, Asset Intertech, Inc., Richardson, TX

Andrew Bach,
CEO, AVO International, Dallas, TX

George Huang,
Chairman & CEO, Award Software International, Inc., Mountain View, CA

Stanley Binder,
CEO, Barringer Technologies, Inc., New Providence, NJ

Anthony Zalenski,
President & CEO, Boca Research, Inc., Boca Raton, FL

Francis E. Girard,
President & CEO, Boston Technologies, Inc., Wakefield, MA

Richard M. Barrett,
Janco Corp., Burbank, CA

Bill Hull,
President, California Instruments Corp., San Diego, CA

John Carter,
CEO, Carco Electronics, Menlo Park, CA

A.R. Rankin,
President & CEO, Cardiac Mariners, Inc., Los Gatos, CA

George Sollman,
Vice Chairman, Centigram Communications, San Jose, CA

David A. Peterson,
Pres & CEO, Cerion Technologies, Champaign, IL

E.M. Buttner,
President & CEO, Coastcom, Alameda, CA

Lynn Hayden,
President & CEO, Coiltronics, Inc., Boca Raton, FL

Eckhard Pfeiffer,
President & CEO, Compaq Computer Corp., Houston, TX

Larry Dumouchel,
CFO, Comtech Communications, Melville, NY

Daniel S. Dunleavy,
CFO, Concurrent Computer Corp., Ft. Lauderdale, FL

Robert Nelson,
President, Conductive Rubber Technology, Inc., Bothell, WA

Greg Clarke,
President, Creative Computer Solutions, Inc., Pleasanton, CA

Edward K. Colbert,
Chairman, Data Instruments, Inc., Acton, MA

F. Leland Payne,
CEO, Dataforth Corp., Tucson, AZ

Martin W. DeYoung,
President & CEO, DeYoung Manufacturing, Inc., Kirkland, WA

Andres C. Salazar,
President & CEO, Digital Transmission Systems, Inc., Norcross, GA

Phil Johnston,
CEO, Digital Recorders, Research Triangle Park, NC

Sherman E. DeForest,
CEO, DIGIVISION, San Diego, CA

John Pomeroy,
President & CEO, Dover Technologies, New York, NY

John M. Murphy,
President, DS Technologies, Inc., Orange, CA

James L. Donald,
Chairman, President & CEO, DSC Communications Corp., Plano, TX

F.G. Troutman,
CEO, DSP Technology, Inc., Fremont, CA

Anthony Shum,
President, E.E. International, Inc., Newark, NJ

Kenneth Lynn,
President, EDAWN, Reno, NV

Heinz Badura,
President, Efratom Time & Frequency Products, Inc., Irvine, CA

James Johnson,
President & CEO, Eikon Strategies, Inc., North Bethesda, MD

Donald R. VanLuvanee,
President & CEO, Electro Scientific Industries, Inc., Portland, OR

Edward Keible,
President & CEO, Endgate Corp., Sunnyvale, CA

Stephen E. Cooper,
Chairman, President & CEO, ETEC Systems, Inc., Hayward, CA

Richard A. Van Saun,
President & CEO, FaxTrieve, Inc., Mountain View, CA

Bill Parzybok,
Chairman & CEO, Fluke Corp., Everett, WA

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Vice President, For Trade International, Lawrence, KS

Harry Jung,
Executive Vice President & General Manager, De La Rue Giori, Sunnyvale, CA

Don Root,
Chairman & CEO, GM Nameplate, Inc., Seattle, WA

Harry Sello,
President, Harry Sello & Associates, Menlo Park, CA

John Level,
Vice President & General Manager, HiRel Labs, Spokane, WA

Harry Hoge,
President, HSQ Technology, San Francisco, CA

Gregory J. Martin,
President, Ice Holdings, Inc., Playa Del Rey, CA

Ron Williams,
CEO, Inductor Supply, Inc., Anaheim, CA

Herman Miller,
President, INET Corp., Plano, TX

Roger A. Lang,
CEO, Infinity Financial Technology, Inc., Mountain View, CA

William G. Mavity,
President & CEO, InnerDyne, Inc., Sunnyvale, CA

Craig Barrett,
President & COO, Intel Corp., Santa Clara, CA

John C. Backus,
CEO, Intellidata, Herndon, VA

Michael B. Alexander,
Chairman & CEO, Intermetrics, Inc., Cambridge, MA

James L. Gaza,
President & CEO, International Components Corp., Chicago, IL

Cary Vandenberg,
President, Jenoptik Infab InTrak, Inc., Colorado Springs, CO

Robert Aebli,
President, KPI/Heurikon Corp., Madison, WI

Bob Ulrickson,
President, Logical Services, Inc., Santa Clara, CA

J. Mark Lambright,
President & CEO, Lucid Corp., Richardson, TX

Jim Marshall,
President & CEO, Matrix Integrated Systems, Richmond, CA

Joseph R. Mallon, Jr.,
CEO, Measurement Specialities, Inc., Fairfield, NJ

William W. George,
Chairman & CEO, Medtronic, Inc., Minneapolis, MN

W.J. McGinley,
Chairman, Methode Electronics, Chicago, IL

Ray Harris,
President & CEO, Metratek, Inc., Reston, VA

Greg T. Love,
President & CEO, Microscan Systems, Inc., Renton, WA

John W. Moriarty,
President & CEO, Microscript Corp., Danvers, MA

Christopher Galvin,
CEO, Motorola, Inc., Schaumburg, IL

Griff Resor,
President, MRS Technology, Inc., Chelmsford, MA

Donald M. Sullivan,
Chairman & CEO, MTS Systems Corp., Eden Prairie, MN

David J. McClure,
President & CEO, Multipoint Networks, Inc., Belmont, CA

Robert G. Gilbertson,
President & CEO, Network Computing Devices, Inc., Mountain View, CA

Joseph J. Francesconi,
President & CEO, Network Equipment Technologies, Inc., Redwood City, CA

O. Buck Feltman,
President & CEO, NextWave Design Automation, San Jose, CA

May K.Y. Yue,
President & CEO, Norris Education Innovations, Inc., Bloomington, MN

John Thompson,
Pres & COO, Number Nine Visual Technology, Lexington, MA

Robert Cohn,
CEO, Octel Communications, Milpitas, CA

John Belden,
President & CEO, OCTuS, Inc., San Diego, CA

G. Ward Paxton,
Chairman, President & CEO, ODS Networks, Inc., Richardson, TX

Robert E. Shelta,
President & CEO, Open Engineering, Inc., San Francisco, CA

Thomas R. Filesi,
Pres & CEO, Optek Technology, Inc., Carrollton, TX

Herb Dwight,
CEO, Optical Coating Lab, Santa Rosa, CA

Mike Bosworth,
Chairman, President, CEO, OrCAD, Inc., Beaverton, OR

Richard O. Martin,
Chairman & CEO, Physio-Control Corp., Redmond, WA

Steve Yu,
President, Pico Design Inc./Motorola

Eugene Yen,
President, Polotec, Inc., Santa Clara, CA

H.L. Singer,
President, Powers Process Controls, Skokie, IL

Robert Praegitzer,
President & CEO, Praegitzer Industries, Inc., Dallas, OR

Donald F. Chandler,
President & CEO, Precision Filters, Inc., Ithica, NY

Robert A. Kleist,
President & CEO, Printronix, Inc., Irvine, CA

Peter S. Pulizzi,
President, Pulizzi Engineering, Inc., Santa Ana, CA

E. Thomas Hart,
President & CEO, QuickLogic Corp., Santa Clara, CA

Cliff Warren,
Chairman & CEO, Raytek Corp., Santa Cruz, CA

William W. Wilson,
President, Recognition Systems, Inc., Campbell, CA

Robert Forsberg,
President, RF Group, Inc., Norwood, MA

Joseph J. Lazzara,
President & CEO, Scientific Technologies, Inc., Fremont, CA

Charles R. Stockey,
CEO, Security Dynamics, Inc., Bedford, MA

Garrett E. Pierce,
Sr. Vice President & CFO, Sensormatic Electronics Corp., Boca Raton, FL

James D. Diller,
Chairman & CEO, Sierra Semiconductor Corp., San Jose, CA

Gary R. Fairhead,
President & CEO, Sigmatron International, Inc., Elk Grove Village, IL

Ed McCracken,
Chairman & CEO, Silicon Graphics, Mountain View, CA

Lee Kenna,
CEO, Chairman, Simco Electronics, Santa Clara, CA

Eliot F. Terborgh,
CEO, SmarTrunk Systems, Inc., Hayward, CA

John A. McGuire,
President & CEO, Solectek Corp., San Diego, CA

Charles A. Thomas,
President & CEO, Solid State Measurements, Inc., Pittsburgh, PA

Ted Wuerther,
President, Sortex, Inc., Newark, CA

James M. Farley,
Chairman, SpeedFam International, Inc., Chandler, AZ

William Stow,
CEO, StarBase, Irvine, CA

Ronald D. Bub,
President & CEO, Stratedge Corp., San Diego, CA

Edwin L. Harper,
President & CEO, Sy Quest Technology, Inc., Fremont, CA

Paul Larson,
President & CEO, Talarian, Mountain View, CA

John W. Ballard,
President & CEO, TCI International, Inc., Sunnyvale, CA

James McKibben,
Vice President Worldwide Sales, Tegal Corp., Petaluma, CA

Jerome J. Meyer,
Chaiman & CEO, Tektronix, Inc., Wilsonville, OR

Charles F. Oliver,
Executive Vice President, TeleProcessing Products Inc., Simi Valley, CA

J.D. Nichols,
President & CEO, Terra-Mar Resource Information Service, San Mateo, CA

Stephen Hill,
President, Tone Commander Systems, Mukilteo, WA

Frank Lin,
President & CEO, Trident Microsystems, Mountain View, CA

Frank Singer,
Managing Partner, TRIG, Huntington Beach, CA

Greg Campbell,
CEO, Trikon Technologies, Inc., Chatsworth, CA

Leroy Fingerson,
CEO, TSI, Inc., St. Paul, MN

James H. Long, Jr.,
President & CEO, UNIAX Corp., Goleta, CA

Jack D. Lantz,
President & CEO, Unitek Miyachi Corp., Monrovia, CA

Gerhard D. Meese,
President, Universal Instruments Corp., Binghamton, NY

Tracey J. O'Rourke,
Chairman & CEO, Varian Associates, Palo Alto, CA

Will Herman,
President & CEO, Viewlogic Systems, Inc., Marlbro, MA

E. Ashford Gary,
Chairman, Vtech (OEM), Inc., Campbell, CA

Douglas McIlvoy,
President, VXI Electronics, Milwaulkie, OR

James R. Ellis,
President & CEO, Wacker Siltronic Corp., Portland, OR

Ronald A. Abelmann,
President & CEO, Wind River Systems, Inc., Alameda, CA

Paul A. Allaire,
Chairman & CEO, Xerox Corp., Stamford, CT

Jon McAlear,
President & CEO, Zellweger Analytics, Inc., Lincolnshire, IL

Phillips W. Smith,
President & CEO, Zycad Corp., Fremont, CA

Statement of Paul H. Delaney, Jr.

MOST-FAVORED-NATION DISAPPROVAL PROCEDURE FOR CHINA

Title IV of the Trade Act of 1974, as amended, sets out the requirements for trade relations with those countries whose products do not currently receive most-favored-nation (″MFN″)treatment in the United States market. Title IV authorizes the President to extend, under certain circumstances, MFN (nondiscriminatory) trade concessions to such countries.

Title IV of the Trade Act of 1974, as amended, governs United States trade relations with nonmarket economy ("NME") countries such as China, and sets forth freedom-of-emigration criteria which must be met, or waived, by the President, as well as the minimum provisions which must be included in a bilateral trade agreement in order for an NME country to obtain MFN status.

If the President determines that a waiver extension will substantially promote freedom-of-emigration objectives, he must submit to Congress a recommendation for a 12-month extension no later than 30 days prior to the waiver's expiration (in the present instance, June 3, 1997). Such a waiver continues in effect unless disapproved by the Congress.

RENEWAL OF MFN TREATMENT FOR CHINA

On May 19, 1997, the President of the United States announced that he had decided, like all of his predecessors since 1980, to extend MFN status to China for the coming year. He also noted the problems which the United States has experienced with China in protecting the intellectual property rights of American firms and the importance of continuing to pursue American interests in this area.

At the President's press conference, Ambassador Charlene Barshefsky, United States Trade Representative ("USTR") stated that United States interests are best served by a secure, stable, open and prosperous China and that the manner in which the United States engages China will help determine whether China becomes integrated into international norms and institutions or whether China will become isolated and unpredictable.

In Secretary of State Madeleine K. Albright's testimony on June 10, 1997 before the Senate Finance Committee, she stated that there is no greater opportunity, or challenge, in United States foreign policy today than to encourage China's integration as a fully responsible member of the international system. She indicated that President Clinton's decision to extend MFN, or normal trade relations, with China reflects the Admninistration's commitment to this goal. She suggested that the Administration fully shares many of the concerns expressed in Congress and elsewhere about certain Chinese policies and practices which interfere with American firms attempting to do business with China on a fair and equitable basis. Secretary of State Albright cited the negotiations on China's accession to the World Trade Organization ("WTO") and indicated that the Clinton Administration had taken the lead in insisting that China make meaningful commitments to lowering its trade barriers before it should be allowed to join the WTO.

The Administration and others have noted that if China wishes to join the WTO, China must accept the responsibilities of a rules-based trading system. Accordingly, China will have to create and implement such a rules-based trade regime, meet WTO requirements, make laws public, require judicial review of all trade actions, apply all trade laws uniformly, and submit to WTO dispute settlement procedures to ensure compliance with WTO rules. This approach would enhance the rule of law and the application of international norms in China's trade relations, thus benefitting both China and the United States. China's accession to the WTO must be based on commercially meaningful market access for goods and services, lowered tariffs, elimination of quotas and other market access barriers, the right to export directly, and access to consumers in a full range of sectors, all of which must be part of any viable accession package for China.

It is important that there be continuing consultations by USTR with United States private sector interests regarding the international commercial relationship between the United States and China. Dating back to the period of the Trade Reform Act of 1973 (this legislative initiative was ultimately enacted into law as the Trade Act of 1974), it was clearly the intention of the Administration and the House Ways and Means Committee and the Senate Finance Committee to assure appropriate and proper consultations with United States private sector interests and this was the specific purpose for establishing the Advisory Committee structure as a part

of the Trade Act of 1974. The importance of such private sector consultations under provisions of United States international trade law is an ongoing consideration which will necessarily affect the support of United States private sector interests for renewal of MFN for China.

China's past history of piracy involving intellectual property and other areas has been very harmful to various American industries, including computer software, high technology products, sound recordings, motion pictures, pharmaceuticals, agrichemicals, books and others. All goods that carry trademarks are hurt by Chinese piracy. Unless China undertakes even greater efforts to halt piracy, it is to be expected that this will continue to act as a serious barrier to improving relations between the United States and China.

HOUSE WAYS AND MEANS COMMITTEE PROCEEDINGS

On July 18, 1996 at a House Ways and Means Committee hearing on international competitiveness, Chairman Bill Archer stated that the subject of international competitiveness is critical to the economic, political, and social well-being of the United States. The Chairman noted that over the last decade, the world has developed and is continuing to develop into a truly global economy and that at no time during our nation's history has the United States economy been more dependent on the economies of other countries. The Chairman stated that our trade policies have been constantly changing to accommodate this globalization of the world's economies and that as the world's economies continue to become more interrelated, the need for a comprehensive policy that is compatible with our country's international trade, economic, and financial objectives is crucial.

On March 9, 1995, Congressman Philip M. Crane, Chairman of the House Ways and Means Committee Subcommittee on Trade, held a hearing concerning an intellectual property agreement signed with the People's Republic of China and the prospects for China's accession to the WTO. As noted at that time by way of background after an eight-month investigation, USTR found on February 4, 1995 that China had failed to protect intellectual property rights and that many United States industries, including computer software, pharmaceuticals, agricultural and chemical products, audiovisual works, books and periodicals, and trademarks, had been adversely affected. Consequently, USTR ordered the imposition of 100% tariffs on over $1 billion of imports of Chinese products beginning February 26, 1995 if an acceptable agreement could not be reached by that date. On February 26, 1995, USTR announced that the United States and China had reached agreement to provide for protection of intellectual property rights for United States companies and provide market access for United States intellectual property-based products.

At that time, China had been seeking membership in the WTO for the past eight years. Although, it had been a member of the 1947 General Agreement on Tariffs and Trade ("GATT"), China had abandoned its membership after the communist takeover in 1949. In December 1994, China's efforts to join the WTO were blocked, and it did not become one of the founding members. Some of the concerns about China's membership include its non-tariff trade barriers, the non-convertibility of its currency, its massive state-run sector, and its closed services market. Another issue relates to whether China may join the WTO as a developing country member or whether it must meet the obligations of a more advanced economy.

During the hearing Chairman Crane said that he was pleased that the United States and China had reached agreement to assure the protection of United States intellectual property rights in China, and he indicated that the United States should aggressively enforce the agreement reached in order for the United States to make sure that China will in fact respect intellectual property rights within its borders. Chairman Crane noted that the United States must assure that China is complying with the rules of the multilateral trade regime before China can become a member of the WTO.

It was suggested that this agreement would also improve the negotiating environment for China as it works toward acceding to the WTO and that if China wishes to become a member of the WTO, it must go further and show that it can fully comply with the rules in the multilateral trade regime.

Chairman Archer, Congressman Gibbons, Congressman Matsui, and Chairman Crane stated in a letter dated December 15, 1994 that they believed that China's eventual entry into the WTO system would be beneficial for all concerned given the size of the Chinese economy and that the United States should take whatever time is necessary to ensure that any Chinese accession is done properly and that China's accession would be beneficial only if China carries out its obligations as a full-fledged member in good standing.

Ranking Minority Member Charles B. Rangel stated that with respect to the ongoing negotiations concerning China's accession to the WTO that the United States should support China's accession to the WTO provided it is done on commercially sound terms and with full acceptance by China of the basic obligations of the WTO system and that no WTO accession negotiation would be as commercially significant as that of China.

USTR Ambassador Michael Kantor stated at the hearing that with respect to China the United States faced historic concerns over a failure to enforce intellectual property rights which had had a pernicious effect on United States industries ranging from agricultural chemicals and pharmaceuticals, to computer software, to Jeep Cherokees, to the misuse of trademarks, and the pirating of compact discs and other products.

Ambassador Kantor stressed the importance of market access in order to minimize the effects of piracy and promote better relations between China and the United States. He stated that it is essential that United States companies have the right to operate independently in China, which would include royalties, licensing, joint ventures and the right of establishment under the agreement. The Ambassador noted his support for China's accession to the WTO provided the terms of membership were on a commercially reasonable basis.

According to Ambassador Kantor, in order to promote trade relations with China in the future, certain laws must be adhered to and followed. United States trademark owners in all categories of goods and services must be protected in China's market. The rights of these trademark owners must be enforced in China. Protection against unfair competition, through the illegal replication of trademarks and any other actions that could mislead or confuse consumers, would also provide benefits to a range of United States industries trading with China.

Ambassador Kantor stated that by enhancing access to the Chinese market, United States companies should benefit greatly. China's accession to the WTO should guide the structure of China's reforms, and it should cement reforms currently in place. China's accession is important for reasons beyond bilateral relations. There are numerous applicants for WTO membership, and many of these countries are now transforming into market economies. If China accedes to the WTO on anything less than commercially reasonable terms, or without commitments to take further reform measures, the integrity of the WTO as a whole would be at risk.

Congressional Opposition to MFN Renewal for China

On June 3, 1997, Senate Foreign Relations Committee Chairman Jesse Helms introduced a resolution of disapproval on MFN trade status for China. Chairman Helms stated that he believed a majority of Americans are absolutely persuaded that the United es must conduct its policy toward China on the basis of morality as well as pragmatism.

Senator Helms has indicated that when a country like China gets normal trade relations with the United States, it is getting better treatment than it deserves and that it is wrong and foolish for the United States to provide such benefits to China under present circumstances.

Views of American Agriculture

On May 8, 1997, Dean R. Kleckner, President of the American Farm Bureau Federation, testified before the House Agriculture Committee Subcommittee on Livestock, Dairy and Poultry regarding the current status and future prospects of trade between the United States and the European Union.

President Kleckner stated that the American Farm Bureau Federation ("AFB") is the nation's largest general farm organization representing more than 4.7 million member families. He noted that the AFB is a strong supporter of free and open trade. As in the past, the AFB strongly supports MFN for China.

The AFB has emphasized that trade agreements must be monitored and enforced and that the AFB has been concerned for some time about the level of attention and commitment by USTR on international agricultural issues, and with this in mind the AFB has called for a Deputy Ambassador for Agriculture (Deputy USTR for Agriculture). In this regard, AFB is pleased with USTR Ambassador Charlene Barshefsky's move to designate an Ambassador for Agriculture, but the AFB still believes that this is only a granting of the use of a title by the State Department and not the needed permanent position of USTR. Such a permanent position of Deputy USTR for Agriculture would not be at the mercy of personnel changes or changes in Administrations. The AFB has stated that a Deputy USTR for Agriculture and continued close coordination with USDA are critical for successful long-

term United States international agriculture trade and expanding market opportunities.

On May 15, 1997 Jack Laurie, President of the Michigan Farm Bureau, testified before the Senate Finance Committee Subcommittee on International Trade regarding market access issues for United States Agricultural exporters.

Mr. Laurie noted that the (AFB) is a strong supporter of free and open trade and that the AFB worked hard to secure passage of the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT") as well as the North American Free Trade Agreement ("NAFTA") and that the AFB also strongly supports MFN status for China as a protection against unreasonable tariffs for United States products.

The AFB has noted that American farmers can compete in any market in the world if they are given the tools and free market access. The AFB recognizes the United States faces very strong competitors around the world, but the AFB suggests that United States agricultural and food products have always enjoyed an enviable reputation with international consumers.

The AFB believes that MFN for China must move through Congress without being encumbered by human rights issues. The AFB continues to evaluate the ground rules for the accession of China and Russia into the WTO, and the AFB has clearly indicated that these negotiations must result in these countries entering the WTO as developed nations on a commercially viable basis.

In testimony before Congressional Committees, the AFB has stated that in 1996 the United States exported $60 billion (United States dollars) of agricultural goods to our trading partners and imported $30 billion worth of agricultural goods, thus giving the United States an extremely positive international trade surplus of $30 billion (See Attachment A). In order to continue this excellent record, the United States needs to remain committed to lowering barriers and creating more open trading systems with all countries.

The AFB recently noted that it welcomes President Clinton's announcement that he would ask Congress to renew China's MFN trade status and stated that the President's decision is certainly good news for America's farmers and ranchers. The AFB has indicated that it will be working with Congress to make sure this issue is considered on the basis of trade. The AFB stated that both Republicans and Democrats, including House Speaker Newt Gingrich and Minority Leader Richard Gephardt have expressed serious concerns about renewing MFN for China under present circumstances.

The agriculture community is particularly interested in the tremendous potential of future food and fiber sales to China, one of the most populous countries in the world, and the AFB understands that the continuation of MFN will allow producers to pursue those markets and continue to expand agriculture's favorable trade balance.

ATTACHMENT A

Comparative Analysis and Trends concerning United States Agricultural Exports (Values in Billions of United States Dollars) for Calendar Years 1975 into 1996 (including Monthly Data for 1995 and 1996)

	Exports	Increase or Decrease
1975	22.1	---
1976	23.3	1.2
1977	24.2	0.9
1978	29.8	5.6
1979	35.2	5.4
1980	41.8	6.6
1981	43.8	2.0
1982	37.0	(6.8)
1983	36.5	(0.5)
1984	38.2	1.7
1985	29.6	(8.6)
1986	26.6	(3.0)
1987	29.1	2.5
1988	37.6	8.5
1989	41.6	4.0
1990	39.4	(2.2)
1991	39.3	(0.1)
1992	43.0	3.7
1993	42.8	(0.2)
1994	46.0	3.2
1995	56.1	10.1
1996	61.2	5.1

January 1995	4.41	January 1996	5.45	1.04
February 1995	4.75	February 1996	5.21	.46
March 1995	4.96	March 1996	5.38	.42
April 1995	4.44	April 1996	5.02	.58
May 1995	4.15	May 1996	4.72	.57
June 1995	3.88	June 1996	4.28	.40
July 1995	3.89	July 1996	4.36	.47
August 1995	4.31	August 1996	4.54	.23
September 1995	4.63	September 1996	4.29	(.34)
October 1995	5.05	October 1996	5.14	.09
November 1995	5.15	November 1996	5.78	.63
December 1995	5.28	December 1996	5.16	(.12)
Re-exports	1.17*		1.25*	
Totals	56.07*		61.19*	5.12

* Including 12 month cumulative 1996 agricultural re-exports.

Source: See United States Foreign Trade Annual 1974-1980, United States Department of Commerce, Bureau of the Census; and FT 990, Highlights of United States Export and Import Trade, United States Department of Commerce, Bureau of the Census.

OTHER AMERICAN PRIVATE SECTOR VIEWS

From an economic standpoint, the present key elements involving the United States and China are: MFN status, WTO accession, and the bilateral trade imbalance. As MFN renewal for China is considered again this year, it is very clear that the rule of law has become an increasingly significant issue for United States-China relations. In this regard, it is very important for China to make certain that contracts will be honored and that anticompetitive practices will not be tolerated. China must develop the required legal infrastructure if China is to obtain the benefits of the world trading system.

In recent years, the bilateral trade imbalance between the United States and China has increased dramatically and is now running at an annual rate of over $40 billion (United States dollars) a year (See Attachment B). In point of fact, the United States bilateral trade deficit with China is now approaching trade deficit with Japan (See Attachment C).

Without question it is apparent that various parties believe that China must make major efforts to conform to the rule of law if it wishes to obtain the benefits from being a full participan in the world trading system. China should be required to provide orderly process to foreign investors and foreign traders and it should push ahead to improve its legal system so that disputes may be resolved as they would in market oriented societies.

International investors and traders will be looking for continuity and business consistency in their dealings with China. They will expect an open system in China with legally enforceable rights and procedures to protect their interests in the ordinary course of business. These expectations are certainly not unreasonable when it is recognized that most other trading nations already have in place such mechanisms to ensure fair and equitable treatment of both domestic and foreign parties. If American firms come to believe that they can expect such conduct from China, this should benefit China substantially as such enterprises will then be willing to make even greater commitments to the Chinese economy.

It is important that Chinese practices not discriminate against foreign based multinationals. In the broadest sense, wherever possible, American firms should receive equivalent national treatment by China. In the past, there have been various cases where United States trade negotiators and officials have pointed out to China that business harassment of foreign firms in China cannot be tolerated if China wishes to maintain MFN status and obtain WTO membership. China must accept its legal obligations if China wishes to have the rights of a normal trading partner.

With respect to contractual agreements and understandings, China must make progress in assuring outside parties that it will take the necessary steps to promote the letter, intent, and spirit of its international commitments. Recognizing that China is presently suspect in many of these areas, it is particularly important that China be more forthcoming and move forward to bring about necessary changes so that it can become a full-fledged member, in good standing, in the international community. Obstructionist policies and discrimination against foreign based firms will only increase the prospects that opposition to China's MFN status and WTO firms necessarily expect from China fair, equitable, reasonable, and nondiscriminatory treatment. In order to assure that China opens its markets to American enterprises, the United States should be diligent in enforcing the rule of law as it relates to China's commitments to provide business consistency and commercial terms to American firms doing business with China.

ATTACHMENT B

United States Merchandise Trade Balance with China for
Calendar Years 1990 through 1996
(Value in Millions of United States Dollars)

	United States Exports	United States Imports	United States Trade Balance
1990	4,806	15,237	(10,431)
1991	6,278	18,969	(12,691)
1992	7,418	25,728	(18,310)
1993	8,763	31,540	(22,777)
1994	9,282	38,757	(29,475)
1995	11,754	45,543	(33,789)
1996	11,978	51,495	(39,517)

These statistics are based on data provided to the United States Department of Commerce Bureau of the Census by the United States Treasury Department Customs Bureau.

ATTACHMENT C

June 17, 1997

The United States January, February, March, April, May, June, July, August, September, October, November and December 1996 monthly merchandise trade deficit was $166.22 billion (United States dollars) as compared with $158.72 billion for the same period in 1995.

The statistics noted below set out by country those nations running the largest trade surpluses with the United States (in billions of United States dollars) for the first twelve months of 1995 and 1996.

1995		1996	
1. Japan	$ 59.14	1. Japan	$ 47.68
2. China	$ 33.79	2. China	$ 39.52
3. Canada	$ 18.12	3. Canada	$ 22.84
4. Mexico	$ 15.39	4. Mexico	$ 16.20
5. Germany	$ 14.45	5. Germany	$ 15.47

For the same periods, the following figures show the combined trade balance with the "Pacific Rim" countries (Australia, China, Japan, Republic of South Korea, Hong Kong, Singapore, Indonesia, Taiwan and others) in billions of United States dollars.

1995	$ 108.13 (deficit)
1996	$ 102.06 (deficit)

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