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U.S.-CHINA RELATIONS

THURSDAY, SEPTEMBER 11, 2003

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:32 a.m. in room SD–419, Dirksen Senate Office Building, Hon. Richard G. Lugar (chairman of the committee), presiding.

Present: Senators Lugar, Hagel, Allen, Alexander, Coleman, Sarbanes, Feingold, and Bill Nelson.

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee is called to order.

It's a pleasure to note, in our audience today, four Members of the Parliament of Great Britain. And I note that Mr. Blizzard, Mr. Holmes, Mr. Russell, and Mr. Weir are here, and also Mr. Paul Riderman, who's Advisor to Secretary General Solana. Will you rise so we will know that you are here? We thank you so much for coming. It's an honor to have you here this morning.

The Committee on Foreign Relations today welcomes James A. Kelly, an old friend of the committee, and Assistant Secretary of State for East Asian and Pacific Affairs.

On our second panel, we will have four distinguished outside experts, Nicholas Lardy, a senior fellow at the Institute for International Economics, Harold Brown, former Secretary of Defense and counselor and trustee of the Center for Strategic and International Studies [CSIS], Kurt Campbell, former Assistant Deputy Secretary of Defense for Asia and the Pacific, and now senior vice president and director of the International Security Program at CSIS, and T. Kumar, Amnesty International USA advocacy director for Asia and the Pacific.

The purpose of this hearing is to review the relationship between the United States and the People's Republic of China. This relationship is one of the most complex foreign policy issues that we must manage today. China's economic and political influence is growing, and few Asian problems can be solved without its cooperation. In recent months, China has taken some helpful steps in the global war on terrorism, and performed an active role in seeking a diplomatic solution to North Korea's dangerous nuclear weapons program. Although these steps have led to improved political cooperation with China, we continue to have serious issues of concern, and sometimes sharp disagreements with the Beijing Government.

The driving force in China's evolving relationship with the United States and the rest of the world is its record of economic

growth. Since 1979, China has maintained an average annual growth rate of nearly 10 percent, lifting 200 million people out of extreme poverty and creating a new middle class. For Americans, however, the most visible aspect of this transformation is the large and growing trade deficit with China, which reached $103 billion last year. This is more than twice the size of our deficit with China from 1997, for comparison.

China is now the third-largest supplier of imports to the United States, and an increasing proportion of the products being imported are relatively sophisticated items, such as computers and microwave ovens. China is now the world's largest recipient of foreign direct investment. A good share of this investment has come from American firms.

China's economic policies require close scrutiny because of their implications for both U.S. national security policy and United States jobs. Many American workers in the manufacturing sector perceive their livelihoods to be threatened by China's ability to attract investment, its low wages, and its trade practices. These workers want to know that everything is being done to ensure that China plays fair in the international marketplace. In particular, there is great concern about the under-valued Chinese currency, about China's resistance to complying with WTO obligations to reduce trade barriers, about its failure to adequately protect copyrights on software and other intellectual property. Our trade representatives and diplomats must tirelessly pursue these issues with the Chinese, both in specific talks and in the context of our broader relationship.

We must also pay attention to the impact of China's growth on economic stability in Asia. Prosperous countries, such as Japan, Korea, and Taiwan, are worried that their own manufacturing industries are being hollowed out, while many developing countries in Asia are complaining that China is absorbing much of the foreign investment that would have gone their way. China's smaller neighbors worry about Chinese influence in regional affairs, including the recurrent disputes over the South China Sea.

With China's new wealth has come a major program to modernize its military, the world's largest. According to a recent Council on Foreign Relations report, the focal point of this military modernization is influencing Taiwan's political choices about reunification.

In early 2001, after President Bush's statement that the United States would not remain aloof if China attacked Taiwan, I wrote, "I will be one of many Americans assisting the President in his assertion that a forceful military unification of Taiwan and China will not be tolerated." Today, we should consider what China's military program means for the United States, its neighbors, and especially Taiwan. Given China's past history as a proliferator of weapons technology, does this modernization pose new proliferation risks?

Finally, China's development has given millions of Chinese citizens new personal space to choose their jobs, start businesses, make money, travel, and communicate with one another and the outside world. These developments have produced more questions about democracy in China, transparency in government, and ob-

servance of human rights. According to Amnesty International's latest report, the human-rights situation in China has worsened. The Strike Hard Campaign, the handling of the SARS epidemic, actions against Falun Going, moves against ethnic minorities in the name of counter-terrorism, and continuing repression in Tibet all raise important questions.

We look forward to discussing these issues with our witnesses. We thank each of them for agreeing to appear before us today.

[The opening statement of Senator Lugar follows:]

OPENING STATEMENT OF SENATOR RICHARD G. LUGAR

The Committee on Foreign Relations welcomes today James A. Kelly, Assistant Secretary of State for East Asian and Pacific Affairs. On our second panel we will have four distinguished outside experts: Nicholas Lardy, a senior fellow at the Institute for International Economics; Harold Brown, former Secretary of Defense and counselor and trustee of the Center for Strategic and International Studies; Kurt Campbell, former Assistant Deputy Secretary of Defense for Asia and the Pacific and now senior vice president and director of the International Security Program at CSIS; and T. Kumar, Amnesty International USA's Advocacy Director for Asia and the Pacific.

The purpose of this hearing is to review the relationship between the United States and the People's Republic of China. This relationship is one of the more complex foreign policy issues that we must manage today. China's economic and political influence is growing, and few Asian problems can be solved without its cooperation. In recent months China has taken some helpful steps in the global war on terrorism and performed an active role in seeking a diplomatic solution to North Korea's dangerous nuclear weapons program. Although these steps have led to improved political cooperation with China, we continue to have serious issues of concern and sometimes very sharp disagreements with the Beijing government.

The driving force in China's evolving relationship with the United States and the rest of the world is its record of economic growth. Since 1979, China has maintained an average annual growth rate of nearly 10 percent, lifting 200 million people out of extreme poverty and creating a new middle class. For Americans, however, the most visible aspect of this transformation is the large and growing trade deficit with China, which reached $103 billion last year. This is more than twice the size of our deficit with China from 1997. China is now the third largest supplier of imports to the United States, and an increasing proportion of the products being imported are relatively sophisticated items such as computers and microwave ovens. China is now the world's largest recipient of foreign direct investment. A good share of this investment has come from American firms.

China's economic policies require close scrutiny because of their implications for both U.S. national security policy and U.S. jobs. Many American workers in the manufacturing sector perceive their livelihoods to be threatened by China's ability to attract investment, its low wages, and its trade practices. These workers want to know that everything is being done to ensure that China plays fair in the international marketplace. In particular, there is great concern about the undervalued Chinese currency, about China's resistance to complying with WTO obligations to reduce trade barriers, and about its failure to adequately protect copyrights on software and other intellectual property. Our trade representatives and diplomats must tirelessly pursue these issues with the Chinese, both in specific talks and in the context of our broader relationship.

We also must pay attention to the impact of China's growth on economic stability in Asia. Prosperous countries such as Japan, Korea, and Taiwan are worried that their own manufacturing industries are being "hollowed out," while many developing countries in Asia are complaining that China is absorbing much of the foreign investment that would have gone their way. China's smaller neighbors worry about Chinese influence in regional affairs, including the recurrent disputes over the South China Sea.

With China's new wealth has come a major program to modernize its military, the world's largest. According to a recent Council on Foreign Relations report, the focal point of its military modernization is influencing Taiwan's political choices about reunification. In early 2001, after President Bush's statement that the United States would not remain aloof if China attacked Taiwan, I wrote: "I will be one of many Americans assisting the president in his assertion that a forceful military unification of Taiwan and China will not be tolerated." Today we should consider what

China's military program means for the U.S., its neighbors, and especially Taiwan. Given China's past history as a proliferator of weapons technology, does this modernization pose new proliferation risks?

Finally, China's development has given millions of Chinese citizens new personal space to choose their jobs, start businesses, make money, travel, and communicate with one another and the outside world. These developments have produced more questions about democracy in China, transparency in government, and observance of human rights. According to Amnesty International's latest report, the human rights situation in China has worsened. The "strike hard" campaign, the handling of the SARS epidemic, actions against Falun Gong, moves against ethnic minorities in the name of counter-terrorism, and continuing repression in Tibet, all raise important questions.

We look forward to discussing these issues with our witnesses, and we thank each of them for agreeing to appear before us today.

The CHAIRMAN. It's a special pleasure to have you, Secretary Kelly. Would you please proceed with your testimony?

STATEMENT OF HON. JAMES A. KELLY, ASSISTANT SECRETARY OF STATE, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. KELLY. Thank you very much, Mr. Chairman. And thank you, sir, for that statement, which I think summarizes exceptionally well many of the factors that I will try to touch on in this testimony.

With your permission, sir, I would like to just have an abbreviated version of my statement, and submit the entire statement for the record.

The CHAIRMAN. It will be published in full in the record.

Mr. KELLY. Thank you, sir.

It's a pleasure and an honor to address the Senate Foreign Relations Committee on one of the most important bilateral relationships of the 21st century, the U.S.-China relationship. As the world's most populous country, with a huge and rapidly growing economy and a permanent seat on the United Nations Security Council, China is well on its way to becoming a major force in global affairs. In some respects, it is already there. In others, it has aspirations to leadership that could complement or potentially conflict with our Nation's objectives. Managing our relationship with this dynamic and evolving country and ensuring that the U.S.-China relationship is a force for peace, security, and prosperity, is a task as critical as it is complicated.

President Bush, Secretary Powell, and all of us in the administration have worked very hard over the last 2½ years to forge a candid, constructive, and cooperative relationship with China. In the spirit of dealing straightforwardly with our differences, and building on common interests, the President has met with China's leader an unprecedented four times since taking office. He visited China twice in his first 13 months in office, hosted President Jiang Zemin in Crawford last October, and met the new Chinese President Hu Jintao in France this June. I expect additional senior meetings even before the end of this year.

While not minimizing the differences that remain over human rights, nonproliferation, and Taiwan, I can report to you, sir, that the administration's approach to China has resulted in a U.S.-China relationship that is, on some fronts, the best it has been in years. It is marked by complementary and sometimes common poli-

cies on a broad range of issues that are critical to U.S. national interests. The war on terrorism, and critical regional security issues are two examples.

Both China and America understand that what we need, what is in both of our interests, is a relationship that is pragmatic, based on mutual respect, and focused on furthering peace and stability in the world. By "pragmatic," I mean that we maintain and strengthen our core interests or values. Yes, we have real and important differences with China, and we must continue to encourage China's evolution as a responsible global power that contributes to the solution of global problems and respects its international obligations in areas such as nonproliferation, trade, and human rights. Our goal is to develop a relationship with the PRC that furthers bilateral cooperation on a range of critical issues while staying true to U.S. ideals and principles.

I was recently in Beijing for six-party talks aimed at the complete, verifiable, and irreversible termination of North Korea's nuclear programs. China played a critical role in getting the DPRK to the table and arranging the talks and in letting Pyongyang know that North Korea's pursuit of nuclear weapons is not simply a bilateral issue between the U.S. and North Korea, but is a matter of great concern to its neighbors in the region.

It bears remembering that 50 years ago the U.S. and the PRC were fighting on opposite sides of a war on the Korean Peninsula. Clearly, China and the United States do not have identical perspectives on world affairs. Taiwan is one example. Our abiding interest is in a peaceful resolution of cross-strait differences. We continue to tell China clearly that its missile deployments across the strait from Taiwan and refusal to renounce the use of force are fundamentally incompatible with a peaceful approach.

I want to highlight today the profound importance of China's extraordinary and ongoing economic transformation. In a clear move away from a moribund Communist economic system, China has implemented market-oriented reforms over the past two decades, and unleashed individual initiative and entrepreneurship. While substantial development challenges remain, the result has been the largest reduction of poverty and one of the fastest increases in income levels ever seen.

China's economic relations with the United States and the world have also been transformed. In general, trade relations in East Asia are undergoing significant restructuring. For example, South Korean exports to China in July exceeded their exports to the United States for the first time. These trends are likely to accelerate as intra-regional trade in East Asia continues to expand. And I would interject that some 10 years ago, China was perhaps a 1-percent factor in intra-Asian trade throughout East Asia. It's now approaching 20 percent. This is incredible growth in a short period of time.

Largely closed to foreign firms until 1980, China is now the world's fourth-largest trading nation, with total trade of over $600 billion. Trade between the U.S. and China has led the way, reaching more than $148 billion in 2002.

But some of our most serious disagreements with China today relate to the nature of China's political system and its internal poli-

cies. Despite reform, China's legal system remains seriously flawed and often provides little or no due process to those accused of crimes, particularly political crimes. There is simply no other way to put it. Ongoing gross violations of human rights are a serious impediment to better relations, and undermine the goodwill generated by individual releases or by other steps.

We have been particularly disappointed by backsliding on human rights this year, after a year of incremental but still unprecedented progress in 2002. It is important that China take steps to modernize its criminal and civil jurisprudence system, and we intend to press these issues in our bilateral meetings with China.

There are also steps that need to be taken with regard to nonproliferation. The Chinese have expressed their desire to stem the proliferation of missiles and WMD, and we are heartened by recent steps taken in the right direction, but there's a long way to go.

Perhaps, sir, I'd conclude by returning to where I started. The U.S.-China relationship has come a long way since just a few years ago, and has moved beyond some rocky moments, notably the accidental bombing of China's Embassy in Belgrade and the EP–3 crisis of April of 2 years ago, to begin to build a more mature relationship, one defined as much by our common efforts in support of shared interests as by our differences. I do not underestimate the challenges of our relations with China, and we must continue to speak frankly and forcefully on issues that concern us.

A U.S.-China relationship that is candid, cooperative, and constructive is both necessary and possible today. It is also in the interest of our mutual prosperity and peace and that of the Asian Pacific region and the world.

Thank you, Mr. Chairman. Sir, I'd be happy to take questions from the committee.

[The prepared statement of Mr. Kelly follows:]

PREPARED STATEMENT OF HON. JAMES A. KELLY, ASSISTANT SECRETARY OF STATE, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

Good Morning. Thank you Mr. Chairman for the opportunity to address the Senate Foreign Relations Committee on one of the most important bilateral relationships of the 21st century—The US-China relationship.

As the world's most populous country, with a huge and rapidly growing economy, and a permanent seat in the UNSC, China is well on its way to becoming a major force in global affairs. In some respects, it is already there; in others, it has aspirations to leadership that can complement—or potentially conflict with—our nation's objectives. Managing our relationship with this dynamic and evolving country and ensuring that the US-China relationship is a force for peace, security, and prosperity is a task as critical as it is complicated.

Many have tried to sum up the United States' relationship with China in a catch phrase—friend or enemy, good or bad, strategic competitor or strategic partner. Such characterizations are neither useful nor accurate. Our relationship with the PRC and its 1.3 billion citizens is too complex, varied, and fast changing to be reduced to sound bites. And so today, avoiding broad generalizations and overly simplistic judgments, I want to give you specifics on where we stand on a whole range of issues with the PRC after the first two years of this Administration.

President Bush, Secretary Powell, and all of us in the administration have worked hard over the last two and a half years to forge a candid, constructive and cooperative relationship with China. In the spirit of dealing straightforwardly with our differences and building on common interests, the President has met with China's leader an unprecedented four times since taking office. He visited China twice in his first 13 months in office, hosted President Jiang Zemin in Crawford last October, and met the new Chinese President Hu Jintao in Evian, France this June.

While not minimizing the differences that remain over human rights, nonproliferation, and Taiwan, I can report to you that the administration's approach to China has resulted in a US-China relationship that is, on some fronts, the best it has been in years. It is marked by complementary—and sometimes common—policies on a broad range of issues that are critical to US national interests: the war on terrorism and critical regional security issues are just two examples.

Both China and America understand that what we need—what is in both of our interests—is a relationship that is pragmatic, based on mutual respect, and focused on furthering peace and stability in the world.

By pragmatic, I mean that we maintain and strengthen our core interests or values. Yes, we have real and important differences with China and we must continue to encourage China's evolution as a responsible global power that contributes to the solution of global problems and respects its international obligations in areas such as nonproliferation, trade, and human rights. Our goal is to develop a relationship with the PRC that furthers bilateral cooperation on a range of critical issues while staying true to US ideals and principles.

I was recently in Beijing for 6-party talks aimed at the complete, verifiable, and irreversible termination of North Korea's nuclear programs. China played a critical role in getting the DPRK to the table and arranging the talks, and in letting Pyongyang know that North Korea's pursuit of nuclear weapons is not simply a bilateral issue between the US and the DPRK, but is a matter of great concern to its neighbors in the region.

It bears remembering that 50 years ago the U.S. and the PRC were fighting on opposite sides of a conflict on the Korean peninsula. Today, by contrast, we share a common goal in preventing North Korea's further development of weapons of mass destruction. China's appreciation of the need to bring North Korea back into compliance with its international commitments is significant indeed. As PRC chair of the talks, Vice Foreign Minister Wang Yi, said at the conclusion of the talks, China would continue to do its part to seek a peaceful settlement of the nuclear issue and a lasting peace in the Korean peninsula. We will continue working with the Chinese and our other partners to find a peaceful, diplomatic solution to this complicated and difficult issue.

Today marks the two year anniversary of the tragic attacks of September 11th. The swift Chinese condemnation of those attacks and the subsequent enhancing of our bilateral counter-terrorism cooperation have shown that we stand united in our fight against those who wish ill to the United States, and the security and stability of the world. The PRC voted in support of both UN Security Council resolutions after the September 11th attacks. Within two weeks of 9-11, we initiated a U.S.-China counterterrorism dialogue to improve practical cooperation, and have subsequently held two rounds of those talks and are looking towards a third round. China supported the coalition campaign in Afghanistan and pledged $150 million—a significant amount measured against China's historical foreign aid commitments—to Afghan reconstruction following the defeat of the Taliban and our successes in disrupting and setting back al Qaeda. This July, China joined the Container Security Initiative, enabling joint efforts to target and pre-screen cargo being shipped to the U.S. from Chinese ports. This means that Chinese and American customs officials will be working together on the ground in China to keep Americans safe at home.

We have also had a useful dialogue on Iraq. China voted for UN Resolution 1441 authorizing renewed weapons inspections in Iraq, and publicly decried Baghdad's attempts to play games with the UN Security Council. We are looking for ways to engage China further in reconstruction and stabilization efforts in Iraq.

Clearly, China and the U.S. do not have identical perspectives on world affairs. Taiwan is one example. Our abiding interest is in a peaceful resolution of cross-Strait differences; we continue to tell China clearly that its missile deployments across the Strait from Taiwan and refusal to renounce the use of force are fundamentally incompatible with a peaceful approach.

Let me assure you that this Administration takes seriously its obligations under the three U.S.-China communiques and the Taiwan Relations Act. We will continue to adhere to our "one China" policy. We will also consider the sale of defense articles and services at an appropriate level to allow Taiwan to maintain its ability to defend itself.

However, we can say that on some of the most important international issues of the day, China and the United States have overlapping, if not identical, interests, and that the areas of shared interest and cooperation are growing in both scope and intensity.

I want to highlight today the profound importance of China's extraordinary, ongoing economic transformation. In a clear move away from a moribund communist economic system, China has implemented market-oriented reforms over the past two

decades and unleashed individual initiative and entrepreneurship. While substantial development challenges remain, the result has been the largest reduction of poverty and one of the fastest increases in income levels ever seen. China's economic growth has reportedly averaged 9% since 1979, and is expected to remain strong in 2003 despite the setbacks of the SARS outbreak and a sluggish global economy.

China's economic relations with the United States and the world have also been transformed. In general, trade relations in East Asia are undergoing significant restructuring; for example, South Korean exports to China in July exceeded their exports to the U.S. These trends are likely to accelerate as intra-regional trade in East Asia continues to expand.

Largely closed to foreign firms until 1980, China is now the world's fourth-largest trading nation, with total trade over $600 billion. Trade between the U.S. and China has led the way, reaching more than $148 billion in 2002. China is America's fourth largest trading partner, sixth largest export market and fourth largest source of imports. If current trends continue, China may pass Japan as our third-largest trading partner by the end of 2003. In the process, China has also become the world's largest recipient of FDI. U.S. firms have invested over $25 billion in China, in key areas ranging from energy development to automotive and telecommunications technology. U.S. economic engagement with China can—and should—promote prosperity in both countries and throughout the world.

The United States is currently running a large bilateral trade deficit with China. We want to eliminate any and all unfair trade practices that contribute to this deficit and are working with China to open its markets further, insisting that our trade relationship be based on a shared commitment to open markets and to playing by the rules. Maintaining domestic support for open markets to China will become increasingly difficult without demonstrated support in China for open markets to U.S. goods and services. I should note some encouraging signs on that score: our exports to China are growing at a nearly 25% pace this year. Nevertheless, there is still room for improvement.

China's full and timely implementation of its WTO commitments is key to expanding market opportunities for U.S. firms in China and ultimately creating more jobs for American workers and farmers. We are working with our Chinese counterparts to hasten that process, and believe China's WTO implementation will accelerate China's economic reform through the creation of a more rules-based and market-driven economy. While China has made great strides in reforming its economy and moving toward a market-based economy, lowering tariffs in the process, we still believe more needs to be done.

We have serious concerns with China's WTO compliance in certain areas—particularly in agriculture, intellectual property rights, the services sector, and the cross-cutting issue of transparency—and are insisting that the Chinese address these concerns. I want to emphasize that monitoring and enforcing China's implementation of its WTO commitments are top priorities for the U.S. government. We also look forward to working with the PRC on key economic issues in the current Doha Round, including a move to reduce agricultural subsidies, which inhibit the trade of goods in which the United States and China are both competitive.

I should also note that with the end of the textile quota system in 2004 the explosive growth of China's textile industry will pose increasing challenges, not simply to our domestic producers, but to the legion of developing economies that rely on textile exports. Navigating this process will require some sensitivity by China as others adjust.

I know that many members of Congress are concerned that China is deliberately maintaining an undervalued currency to gain an unfair advantage in trade. Treasury Secretary Snow, in his recent visit to Beijing, reiterated to Chinese officials our belief that the best international economic system is one based on free trade, free capital flows, and market-determined exchange rates. We are encouraging China to accelerate trade liberalization, permit the free flow of capital, and take steps to establish a floating exchange rate. I understand that you will have many questions about the currency issue and I defer to my colleagues at the Treasury to address this issue in more detail.

Some of our most serious disagreements with China today relate to the nature of China's political system and its internal policies. Although access to information from outside China and the imperatives of economic reform have made it increasingly difficult for the Communist Party to control social and political thought or activities, China remains a one-party system where the people who rule and who make the rules are by and large not accountable to the general population. The abuses that such a system invites are manifest in China's lack of respect for the rights of its citizens. Any individual or group the regime sees as threatening—whether they be democracy activists, Falun Gong practitioners, Christians wor-

shiping in home or unregistered churches, Tibetans, Muslim Uighurs, journalists investigating corruption, laid-off workers protesting, or even university students venting on the Internet—any of these people run the risk of detention or worse if they cross an ill-defined line.

Despite reform, China's legal system remains seriously flawed, and often provides little or no due process to those accused of crimes, particularly political crimes. There is simply no other way to put it—ongoing gross violations of human rights are a serious impediment to better relations and undermine the goodwill generated by individual releases or other steps.

We have been particularly disappointed by backsliding on human rights this year, after a year of incremental, but still unprecedented, progress in 2002. It is important that China take steps to modernize its criminal and civil jurisprudence system and we intend to press these issues in our bilateral meetings with China.

There are also steps that need to be taken with regard to nonproliferation. The Chinese have expressed their desire to stem the proliferation of missiles and WMD, and we are heartened by recent steps taken in the right direction. Under Secretary for Arms Control and International Security John Bolton was recently in Beijing for the second round of a semi-annual security dialogue aimed at—among other key issues—halting the spread of these deadly weapons and technologies. Although China recently issued updated regulations on the export of chemical and biological agents, as well as missile-related export controls, full implementation and effective enforcement are still lacking. We continue to see disturbing cases of proliferation activities by certain Chinese firms. As you know, the Administration has not shied from sanctioning such activities, as required by U.S. law. China must realize that this kind of proliferation not only damages its relationship with the U.S., but also ultimately hurts its own interests and security.

Let me return to where I started. The U.S.-China relationship has come a long way since just a few years ago, and has moved beyond some rocky moments—notably the accidental bombing of China's embassy in Belgrade, and the EP-3 crisis—to begin to build a more mature relationship: one defined as much by our common efforts in support of shared interests as by our differences.

Contrast those difficult moments with where we are today—four presidential meetings in two years, a common stand on some of the most pressing matters of the day, and a relationship that across a number of different dimensions is enormously robust.

I do not underestimate the challenges of our relations with China, and we must continue to speak frankly and forcefully on issues that concern us. A U.S.-China relationship that is candid, cooperative, and constructive, is both necessary and possible today. It is also in the interests of our mutual prosperity and peace and that of Asia-Pacific region and the world.

Thank you. I look forward to taking your questions.

The CHAIRMAN. Thank you very much, Secretary Kelly. We'll have a round of questioning, and the Chair will suggest 8-minute limits, at least for the first round. If there are additional questions for the Secretary, why, we'll have another round, and then we will have another panel.

I'll begin the questioning. You mentioned the relations improving. I know, from previous testimony, you have pointed out the work you have been doing, personally, as well as through others, with the Chinese with reference to North Korea. Can you describe the role the Chinese are playing, how helpful they have been? Or has this, in fact, been a place in which the relationships have come together much faster?

Mr. KELLY. Yes, Mr. Chairman. The work with North Korea that brought us to the multilateral talks of 2 weeks ago has had a significant contribution by China. Two very senior leaders and delegations have been sent to North Korea by China within the last year to urge North Korea's movement in the direction that we saw 2 weeks ago with the multilateral talks. The Chinese are, of course, always following their own interests, but they have made absolutely clear that the end of nuclear weapons on the Korean Penin-

sula is a very strong objective of China, as well, and they have made that clear, both verbally and I think in their actions.

They have also, by setting up the six-party talks, made clear that the North Korean nuclear issue is not just something between the DPRK and the United States, but something that very much involves, of course, China, but also the other significant players in the region, in particular, the Republic of Korea, Japan, and the Russian Federation.

The CHAIRMAN. In some newspaper articles about these negotiations and the ways in which they have influenced our domestic situation, it has been alleged that the United States did not press China particularly hard, during the Secretary of the Treasury's visit, on the currency evaluation issue, because we had other objectives, namely the North Korean problem. Would you comment on that and what we might anticipate with regard to currency revaluation in China in the near future?

Mr. KELLY. As I tried to make clear in the statement, it's necessary for us to pursue all kinds of messages with China at all times. And even as we cooperate, to the extent we can, on North Korea, even as we cooperate in the global war on terrorism, there is no room for ignoring the significant trade and economic and human rights issues that are there, as well. In fact the very week we had the multilateral talks in China, I had a separate meeting with senior Chinese officials to go through a large range of difficult bilateral problems. Secretary Snow, in that same vein, went there, and I think that there is no question that he made points that are very significant.

During this testimony, I'm going to play it safe. It's not the role of Assistant Secretaries of State to comment on currency valuations, but I'd be delighted, Mr. Chairman, to quote from, I think, the very eloquent positions that Secretary Snow took while he was there. And if you'd like, I would be happy to do that.

But the fact is, we have a very difficult trade and economic situation. It is true that over the last 4 years, our exports to China have doubled from about $13 billion to about $26 billion. But the imports from China have—starting from a much higher base 4 years ago, about $85 billion, now we're looking at about $125 billion. So there is a vast and very difficult trade imbalance in our relations with China. It's very complex in its nature, and I think other members of the panel, later on, are going to be able to comment more intelligently, perhaps, than I could on that. But this was very much in Secretary Snow's mind when he went to China, and I do not believe that he was impeded in the slightest by the other interests we have. The President is determined that "candid, cooperative, and constructive" means that we pursue all of our interests with China.

The CHAIRMAN. Frequently, Russians complain that relatively small American investment is occurring, private investment, in Russia. At the same time, they point out huge investments by American firms are occurring in China. And we may make comparisons of trade laws, of particular rights, of due process commercially in this situation. But at least some are surprised that there is such an abnormal amount of American private investment in China. Why is that so? And is it likely to continue? We may not be able to get into all the domestic politics of China today, but the

fact is that, at the grassroots, a number of our constituents are calling for revaluation of currency. They do so perhaps in the hope that something can occur that would stem the tide of jobs going to China, sometimes jobs brought about by American investment, an expansion of plants there, and an imbalance of trade that they feel ultimately will be to our detriment because it is so large.

Why the investment in China and the huge outpouring of American capital into that country?

Mr. KELLY. Well, there are many reasons, obviously, Mr. Chairman. There are also some obvious imbalances—India, I think, frequently notes to us that American investment is considerably less in India than in China, and the same with Russian Federation. I think as these countries develop and their economies become more attuned internationally, this is likely to switch. Additionally, whether China can continue its unbroken significant growth is also a valid question to be asked. But obviously these are choices of businesses and investors that are made on an economic basis, and they have been made.

One factor that I think is significant is that the largest amount of foreign direct investment in China has been invested from Hong Kong and from Taiwan. In particular, in Hong Kong I believe a lot of that money is what I call "round-trip money." It's Chinese investing in their own economy. And that kind of confidence of the people of China in their own future, I think, underpins business confidence, as well. Currency valuation, I'm sure, is a part of the equation, as well.

The CHAIRMAN. Thank you very much.

Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman. As usual, you are holding hearings on very important issues in a very timely way, and I thank you for it.

Welcome, Secretary Kelly. Let me just ask you a few questions.

First, I can tell you, and I'm sure you know, that the loss of manufacturing jobs to China has not only been very much in the news, but something that is inescapable for anyone who would travel, at least my part of the country—in particular, in Wisconsin. And in the midst of this, we hear the accusations that Chinese workers receive extremely low wages and often work in abysmal conditions.

China took an exception to article 8a, which guarantees the right of everyone to form and join trade unions of their choice, when it ratified the International Covenant on Economic, Social, and Cultural Rights. And the State Department's own human rights report catalogs the dismal state of workers' rights in China. Does the administration expect to engage China on the twin issues of collective bargaining and freedom of association? And what specifically is the administration doing to support labor rights in China? What consequence does the administration support in the absence of progress on labor rights issues?

Mr. KELLY. Senator Feingold, that is a very serious question, and it's a big part of the "candid" part of our relationship with China. The inability of workers to organize is a serious impediment. It has restricted, for example, our ability to provide support to financing from the Overseas Private Investment Corporation [OPIC]. It is an ongoing issue that is raised with China, but the nature of the ad-

versity to trade unions in the Chinese system is deeply ingrained, and it's going to be a slow slog to change this attitude. This is part and parcel of our work in building democratic institutions, building a greater commitment to a rule of law rather than the rule of the party. It's an ongoing issue that is taken up at a variety of levels by the administration with the Chinese.

Senator FEINGOLD. Can you give me a sense of what the administration supports if there isn't progress on this?

Mr. KELLY. The overall relationship with China, as has been noted, has many, many components. There are many things in China that are not to our liking and that, in fact, need to be changed. Rather than identifying negative actions or sanctions that would be taken if some specific goal is not obtained, a bluff on which our country has been called before, we are preferring to emphasize the positive. We have supported, for example, some substantial amounts of money for programming with NGOs and other institutions that are aimed at strengthening labor rights and the ability of workers to organize in China. Much of the effort on rule of law is involved in strengthening the rights of workers.

China, itself, recognizes the lack of a social safety net of any kind, as they deal with one of their greatest problems, the huge state-owned enterprises filled with nonproductive workers, and the problem of unemployment, as well.

So we're much more focused on trying to work to improve the situation rather than to make threats that might be counterproductive if we had to carry them out.

Senator FEINGOLD. Well, let me urge the administration as strongly as I can to obviously continue the positive, but also to communicate to the Chinese that—in my State, there is a growing consensus that the problems with competition with China are, in many ways, destroying our manufacturing base that has been so important to our State, and it is repeated every day to me and is of great importance to the people of my State.

Let me switch to something that the Chairman brought up, which is the relationship between China and North Korea. And I certainly acknowledge the Chinese role in the recent six-party talks. Let me follow on another aspect of it.

In the past, evidence has suggested that China has transferred sensitive technology to North Korea, which has its own very problematic history of proliferation. Can we be assured, at this sensitive time, that China has ceased all such proliferation collaboration with North Korea? And what steps can the United States expect China will be willing to take to combat further proliferation attempts by North Korea? Without concerted Chinese cooperation, I'm wondering if we can expect any regime, aimed at containing North Korea's proliferation, to succeed.

Mr. KELLY. I think, Senator Feingold, that you have put your finger on the critical component of restricting North Korea's ability to bring in, from outside, the technologies and items that are needed for not only nuclear weapons and ballistic missiles, but also for other weapons of mass destruction. We have had, and continue to have, ongoing discussions with China on this issue, and China has, I think, made a credible case that, on major end-items and on the most, at least, obvious forms of military technologies, that it has

been quite restrictive. And I know that there have been examples in which China blocked shipments.

But the fact is, sir, there are many North Korean companies and front companies operating around in China. Within the last 2 weeks, I've had discussions with Chinese colleagues about this topic. China is new to export control laws, and its ways of enforcing them and the bureaucracy to make that meaningful is still in the incubator stage. So they have a long way to go. But I am convinced that they are making an effort. They mean it when they say that they do not want North Korea to be either an unstable military threat or to have nuclear weapons, and are backing that up. But I wouldn't deny that there is some leakage around the edges, and money does talk, unfortunately, sir.

Senator FEINGOLD. What about North Korean planes flying through Chinese airspace or even making refueling stops in China when these planes may well be involved in proliferation activities? As far as you know, does that continue? And have we raised this issue with the Chinese?

Mr. KELLY. Yes, sir, we have raised that issue with the Chinese. It would probably be best to brief you more completely on that particular topic in a closed hearing, sir.

Senator FEINGOLD. I'll look forward to that.

Thank you, Mr. Chairman.

[The prepared statement of Senator Feingold follows:]

PREPARED STATEMENT OF SENATOR RUSSELL D. FEINGOLD

I thank Chairman Lugar and Senator Biden for holding this important hearing, and I thank all of the witnesses for being here today.

This hearing is an opportunity to review the totality of the U.S.-China relationship, and there is no question that our bilateral relationship is extraordinarily complex and important. I certainly look forward to reviewing a number of issues, from cooperation on the North Korean crisis to progress, or the lack thereof, on critical human rights issues.

But I also want to take this opportunity to pass along the concerns of many of my constituents. As I travel throughout Wisconsin, I see community after community ravaged by the loss of manufacturing jobs—jobs that have been lost to other countries in large part because of the flawed trade policies of the past several years. When I opposed Permanent Normal Trade Relations with China, and other flawed trade measures, I did so in great part because I believed they would lead to a significant loss of jobs. But even as an opponent of those agreements, I don't think I could have imagined just how bad things would get in so short a time. This is especially true with respect to our current trade relationship with China, which is increasingly the single biggest reason our manufacturing base is eroding. Until and unless the fundamental inequities in that trade relationship are rectified we will continue to see significant hemorrhaging of manufacturing jobs, devastating more and more communities in Wisconsin and across the country.

The CHAIRMAN. Thank you very much, Senator Feingold.

Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you.

Secretary Kelly, thank you for appearing this morning and for your good work.

Your statement covered many general areas regarding U.S.-Chinese relations. And I'd like to delve a little deeper into your thoughts regarding this new fourth generation of leadership, your sense. For example, is it more committed to internal reforms, more focused on human rights than, for example, the Jiang administration? What do you think we will look forward to in regard to—if

that is the case a more complete and universal attitude toward some of these big issues that have been points of contention between the United States and China? And I suppose I would start with this question. Is it, in fact, true that President Hu and his new administration, as it's developing, is, in fact, focused on more internal reform?

Mr. KELLY. I couldn't go that far, Senator Hagel. This is a transition that is still going on, and I don't think we're going to have a full appreciation of what President Hu and Premier Wen Jiabao and the four new Vice Premiers and the newly installed party leadership do for quite awhile. It is, for example, sir, far from clear to me that the new leadership has broken any new ground on human rights. I noted some backsliding, in fact. Now, maybe that's just new people getting their brief. I think it's an open question about the commitment to reform.

Above all, sir, I see caution and a ongoing desire not to take any false moves, that are going to shatter the kind of confidence that underpins the economic growth, which I believe is a significant part of the legitimacy that the Chinese leadership clings to.

Senator HAGEL. Would you say, from what you know, that the Jiang era of leadership has ended?

Mr. KELLY. No, sir, I would not. Former President Jiang remains Chairman of the Military Commission. Individual leaders, associated most of their lives with former President Jiang, remain in perhaps even a predominant number of significant positions in China. There is no question that President Hu is establishing some patterns for himself that are different from his predecessor, but these differences are fuzzy, rather than sharp.

Senator HAGEL. As you may know, Mr. Secretary, this committee had an opportunity to spend some time with the Dalai Lama yesterday. Give me your assessment of what we need to do more of, less of, what are our most effective means of working with the Chinese regarding human rights?

Mr. KELLY. The human rights question has many different facets. And, of course, His Holiness, the Dalai Lama, represents one of those facets. And the rights and the preservation of the culture of Tibetan people is very much on our minds. And certainly, of course, it's a central concern of His Holiness that he's expressed to many people here in town.

We, of course, actively work by sending officials to Tibet as often as we can to see what the situation is on the ground. Overall, in human rights, our effort has got to be less on announcing—and I know this is Assistant Secretary Craner's view—that we're going to have some talks in a few months, but seeing some progress, on some individuals cases. I would note Fong Fu Ming, Yang Jion Li, Rebiya Kadeer, just three very different situations, right off the top of my head, and there are many others, including American citizens, such as Dr. Chuck Li, who are maintained as, in effect, political prisoners.

We want to emphasize some of these individual cases, but we want to also emphasize the rule of law and the larger situation, as well, including things that have been committed to, such as visits of international rapporteurs on torture, for example, that—a part of the International Human Rights Committee that China had indi-

cated very strongly to us that they would accept, and they have not done so. And it's very important, we believe, that these commitments be honored.

Senator HAGEL. What's your assessment of the current Chinese military modernization efforts?

Mr. KELLY. It's certainly ongoing and troubling, as it seems to be particularly focused, in terms of ballistic missiles and some of the tactical capabilities, on Taiwan. And that, in turn, is something that we have to take note of, and should and do take note of, under our responsibilities of the Taiwan Relations Act, as well.

The PLA has had to go a long way to be modernized, but their growth in resources is a significant one, and the capabilities are obviously being upgraded in many different areas, whether it be submarines or missiles or naval forces or tactical air.

Senator HAGEL. I know the chairman's covered this, as well as Senator Feingold, but let me come at this from a little different perspective, and that is our economic relationship, trade imbalance, with China. I know that's not in your portfolio, as you have suggested in answering a question regarding the currency issue. But in your discussions that you have regularly with the Chinese, do you bring up—do you often have opportunities to talk about the more global dynamic of trade, of economics, of how that impacts our relationship? I mean, you know what kind of pressure we are getting up here from our constituents, the President's getting, this trade imbalance issue, the job issue. How much does that play into your discussions with the Chinese, if any?

Mr. KELLY. It's a big part of my discussions with the Chinese. I regularly see the Chinese Ambassador here. I don't think we ever have a conversation that these issues don't come up. I don't know how many times I've discussed the topic of soybeans with the Chinese. And the same would go up the line with Secretary Powell, and President Bush has raised this on a number of occasions. And we're hopeful on that area. There are also a number of individual other trade issues, including intellectual property rights, a number of specific manufacturing and financial access concerns, that we definitely raise.

The relationship is a whole one, and it wouldn't do, in my view, for us to have anyone that would only touch on some items. And so we definitely, at the State Department, are much involved in these economic issues. I was simply referring to the practice that the President and the Secretary of the Treasury are those who comment on exchange-rate issues. But, beyond that issue, we're all at work very closely together. I met with Secretary Snow before he went to China. Secretary Powell and the President had discussions with him. This is very much a coordinated policy led by the President.

Senator HAGEL. We particularly appreciate your good work on behalf of soybeans.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Hagel. I commend you on that comment.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman. Mr. Secretary, we're pleased to have you here.

I want to continue on the trade issue. How are we going to work out of this situation? I mean, we're running our largest trade deficit with China. Some experts in this country estimate that—through the way they address the currency question, they gain a 30 to 40 percent advantage in trade terms. In fact, we have the most lopsided trading arrangement with China that we have with any major trading partner. The deficit now is well over $100 billion, and climbing. And that's on a very small amount of total trade. The figures I have indicate that 85 percent of the trade relationship, U.S.-China, are imports from China. Only 15 percent are exports from the U.S. to China. So we have a relatively small total trading arrangement. In 2002, just under $150 billion. And yet we run deficits well over $100 billion. So there's a tremendous imbalance in this trading relationship.

Now, we have a significant trade deficit with Japan, and that's another question. That's not the subject of today's hearings. And the Japanese, of course, have been intervening us very substantially to maintain the currency advantage. But at least there the amount of trade is much larger and the amount of imbalance is smaller, although it still sticks out. Then when you look around the rest of the world, the relationships are much closer, in terms of the ebb and flow of trade imports/exports.

But it seems to me we have a chronic problem here. What are we going to do about it?

Mr. KELLY. Well, sir, the first thing we needed to do was to get China, as a part of the international trading regime, into the World Trade Organization [WTO], where it has now been a member for two or three years. Our next steps in the process are holding to China's development under a rule-based trading system. But the fact is, the numbers you point out are, indeed, sobering. This is a huge imbalance. It brings some benefits, too. It brings lower prices to Americans on a wide variety of items that China exports to us. These are obviously very popular. It is also a displacement of items that were sold into the U.S. from other smaller countries and buried in other figures, and there's now a consolidation into China's trade figures.

Senator SARBANES. What do you think about that? What are the foreign-policy implications of that?

Mr. KELLY. They're potentially very serious. The slowness of Southeast Asia's emerging from its 1997 economic crisis is very much a part of this consolidation, and yet there is an overall growth in trade and a growth in those economies that is also a significant part of this, as well.

But the fact is, Senator Sarbanes, we have a structural problem, and it's going to be very slow to resolve itself with China, as far as the trade imbalance is concerned.

Senator SARBANES. Well, how will it ever resolve itself if they continue to deal with the currency in such a way as to gain a 30 to 40 percent advantage in the terms of trade?

Mr. KELLY. The fact is, sir, that China is going to have to address that very issue, and that's why Secretary Snow went to China last week to intensify the dialog with Chinese leaders. I believe Secretary Snow called for flexible exchange rates. This is

something that China is going to have to address, whether it be revaluation or exchange-rate flexibility.

Senator SARBANES. Well, which is it we're seeking of those two?

Mr. KELLY. I'll quote, sir, from Secretary Snow. He said, "Let me turn to the subject of exchange rates, because the subject of exchange rates has been so much in discussion among us." This was his press conference at the Departure. "The establishment of flexible exchange rates, of a flexible exchange rate regime, would benefit both our nations, as well as our regional and global trading partners. Market denominated floating currencies are really the key to a well-functioning financial system."

And that's the way Secretary Snow put it, and this was a major focus of his discussions with all of the economic and political leaders of China.

Senator SARBANES. I'm going to quote Fred Bergsten's column here in the Post, which I gather has been referred to earlier in the hearing. "The growing storm over China is the latest example. Congressional leaders from both sides of the aisle, the business community, and labor agree that the administration must take forceful action to bring that country into the center of the international adjustment process. Remarkably, there is a strong consensus that this should happen by a revaluation of China's exchange rate, rather than new trade barriers. But Snow was precluded from pursuing the issue forcefully, and was even instructed to ask the Chinese to float their currency," which is what you quoted there, "when everyone knew they would rightly reject such an approach because it requires that they open themselves up to the vagaries of the global capital markets. The inevitable result of this impasse will be new assaults on China's exports to the United States, badly undermining a Chinese leadership that overcame enormous domestic resistance to join the World Trade Organization. The President and his foreign-policy officials should recall that huge economic imbalances can be as destructive of relations among nations as traditional security disputes. Ignoring such problems until they reach crisis proportions will, in fact, inflame our domestic politics." And he goes on from there.

What do you say to that comment?

Mr. KELLY. I think Professor Bergsten's views speak for themselves, and the emphasis that you, Senator Sarbanes, have put on them also speaks for itself. There have been many conversations to which I've either been in the lead or a party to that have made that exact point to China, that it is possible to have a crisis in trade relations, and that is certainly not in China's or America's interest, and that we have to move along the process, as well.

With respect to whether revaluation or flexible exchange rates are the solution, I'll just plead inadequate technical background and the desire to leave that question to the Treasury to speak to, sir.

Senator SARBANES. Well, this article suggests that the Treasury is being circumscribed in what it can push for by foreign-policy considerations.

Mr. KELLY. Well, sir, the President's policy is that we have to be able to work on all of the issues with China. I do not believe that

Secretary Snow was in any way restricted. But obviously he'd have to speak for himself on that.

Senator SARBANES. All right.

Mr. Chairman, I know my time's up. Could I make just one final comment?

In 1993, the U.S. trade imbalance with China was $23 billion. That's 10 years ago. In 2002, it was $103 billion. And I understand that the estimates now are projecting that it will be about $120 billion, I think, for 2003. That's an incredible runup in this trade imbalance over a very short period of time, and it's obviously having a major impact here. And I think Bergsten's right. If it's not addressed, you're going to get pressure for other more direct measures to try to correct this situation.

The CHAIRMAN. Thank you very much, Senator Sarbanes.

Senator Allen.

Senator ALLEN. Thank you, Mr. Chairman.

Thank you, Assistant Secretary Kelly and other witnesses, for taking time today to come before this committee.

I'm sorry I was late. This was the second anniversary in Virginia of the Pentagon being hit, and that's why I was late. And I think we all—you probably have already said it, Mr. Chairman, but we all very much appreciate those firefighters and folks here at home, as well as those in our armed services protecting our freedoms.

Now, let us turn to China, a very important issue. I think the most challenging of all portfolios for our country, is dealing with China on multiple levels. We want to have positive statements along political lines encouraging cooperation on issues such as North Korea, but they have to be tempered with our concerns for human rights violations in China.

On the economic side, I'd incorporate, by reference, the comments of Senator Sarbanes and Senator Hagel on the economic side. We do desire to have a productive and positive relationship in trade with China because of the access to their market provided to U.S. businesses. However, there are so many troubling issues with our present-day trade relationship that unfairly disadvantage United States workers and businesses and exporters. And you may not have it all in your portfolio, but this is an opportunity to bring this up.

I'm very pleased, Mr. Chairman, that we're examining this issue of U.S.-China trade and relations. In Virginia, this country has lost thousands and thousands of jobs—manufacturing-sector jobs—due, in part to the artificially low-priced Chinese imports. And we need to make sure that China complies with the WTO rules it agreed to when it joined that organization just a few years ago.

Now, let's face the reality of what China is doing. They're cheating. They're violating these rules. In some cases, what they're doing may be a condonation or negligence; in other cases, it's willful violations of these rules.

You take, No. 1, the intellectual property, piracy matters, the piracy of everything from recordings to software. And that may be, at best, a situation of negligence, condoning and not doing anything to enforce intellectual property rights.

Several have already mentioned, and I support, Secretary Snow's efforts to make sure that their currency is set at market forces, as

far as the value is concerned. In fact, I think that that would go a long way to correcting the imbalance in our trading relationship, and help save and create jobs here in this country.

Third point, in regard to the dumping of below-market-price textiles, actions there need to be taken, as well. There are safeguards that we can apply, special textile safeguards, to stem this surge of Chinese textiles into our market, and I hope that the administration will do so, so that we can get markets to return to some reasonable balance. I have written President Bush urging him to take action and am hopeful that he'll carefully examine the situation and enact the available safeguards that have been agreed to by both nations.

Fourth area of concern, domestic furniture industry. We're facing a similar un-level playing field with China. The U.S. Furniture Coalition has petitioned the International Trade Commission to investigate the possibility of illegal dumping of wood bedroom furniture by Chinese manufacturers. I, again, hope the ITC will look into that. It seems to me a very credible case of illegal dumping is not only crippling our domestic furniture industry, but losing, again, thousands of jobs in our country, and that erosion should not continue. I hope the ITC and the administration will be involved in it.

Fifth, and finally, we need to hold China accountable for its practice of applying a discriminatory value-added tax. It's not just furniture, shirts, and textiles, and piracy; it's also semiconductor chips. China imposes a 17 percent value-added tax on semiconductor chips. In the event, though, that the chips are fabricated in China, they give them an 11 percent rebate. If they are designed and fabricated in China, it is a 14 percent rebate. So, in other words, if we're trying to import—or anyone else is trying to import—semiconductor chips into China, you get hit with a 17 percent tax. But if they are fabricated there, it's a 6 percent tax. If designed and fabricated or manufactured there, 3 percent tax. This is obviously a distinct disadvantage that limits access to the Chinese market. It also adversely impacts the worldwide semiconductor market, and this is clearly in violation. This is a willful and deliberate violate of China's WTO obligations. I'd urge the administration to seek, as quickly as possible, a resolution to rectify this inequity.

So trade is good. Fair trade's something that we would like. But when a country cheats, when it violates the rules, violates the laws, violates the contracts and agreements, I think it's absolutely essential that our government make sure they comply with those laws. There are some times you have to put in countervailing duties. It's a last resort, but it is a resort and a remedy that, in some cases, are absolutely necessary for adherence to these contracts, to these agreements, and also for the saving of good-paying jobs here in this country.

And so would you share with us any actions—we've already covered Secretary Snow and the currency matters, but on semiconductors, on semiconductor chips, furniture, or textiles, could you be so kind as to share with us the actions and positions of the administration in these particular areas?

Mr. KELLY. You raise a large series of entirely valid and very serious problems in our trade and economic relationship with China,

Senator Allen, and I have, in a cursory manner, recently discussed some of the semiconductor problems. Furniture, textile problems, I'm well aware that they are there. I think I would serve the committee best if I gave a more detailed response for the record of the specific actions that are being taken by State Department, Department of Commerce, U.S. Trade Representative's Office in holding China to its WTO commitments in those and other areas, sir.

[The following response was subsequently received.]

The Administration is dedicated to ensuring that the U.S.-China economic relationship is beneficial to both parties and especially to U.S. workers, farmers, small and medium-size business, and consumers. We believe and have stressed to China that the best international economic system—for China and the world—is based on free trade, free capital flows, and market-determined exchange rates. President Bush emphasized these points during his meeting with Chinese Premier Wen Jiabao in December 2003. In addition, Treasury Secretary Snow, Commerce Secretary Evans, Ambassador Zoellick and other senior officials have visited Beijing in recent months and pressed China to move toward market-based exchange rates, improve market access for U.S. exports and accelerate domestic economic reform. Although China has made some progress in these areas, much more needs to be done.

Intellectual Property Rights: China's overall protection of intellectual property rights (IPR) is inadequate and of serious concern to the United States. Administration officials have consistently pressed the Chinese to strengthen IPR protection and enforcement, but results have so far been unsatisfactory.

China's statutory system for the protection of intellectual property has improved as a result of its WTO accession. In accordance with the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, China has revised all of its principal intellectual property laws and implementing regulations to strengthen administrative enforcement, civil remedies, and criminal penalties. However, IPR violations remain rampant. Bilaterally and in multilateral fora, we have pushed China to pursue a sustained, transparent effort to punish and deter IPR violations, especially by dedicating more resources to enforcement, setting and enforcing deterrent levels of fines and criminal penalties, and reducing the high thresholds for criminal prosecutions.

The Administration has made numerous efforts to enhance coordination with U.S. IPR-related groups and to press China to improve IPR protection. U.S. Ambassador to China Clark Randt has held two IPR roundtables in Beijing with more than 100 representatives from American copyright industries and their trade associations as well as U.S. Government and Chinese officials. Subsequently, the U.S. Embassy in China followed up on the November 2003 roundtable by compiling an IPR White Paper highlighting key industry concerns and recommendations for presentation to Chinese Vice Premier Wu Yi, who now heads China's effort to strengthen IPR protection. The Embassy and our constituent posts in China also developed an action plan to pursue specific objectives ranging from the criminalization of IPR-infringing exports to improving market access for American films, music and books. U.S. Embassy efforts involve broad interagency cooperation, active government-to-government advocacy, outreach and capacity building, assistance to U.S. businesses, and diplomatic reporting on IPR developments.

The United States has also cooperated with Japan and other WTO members to seek improvement in China's IPR enforcement. Together with the European Union, the U.S. has made IPR a key feature of "Rule of Law" discussions with Chinese authorities. The United States Government also co-sponsored with Chinese officials a successful training seminar on IPR Criminal Enforcement in October 2003.

Currency Valuation: The Treasury Department has been working actively to encourage China to move toward a flexible exchange rate. China has now taken a number of steps to restructure its banking sector and liberalize its capital market—steps that the Chinese have said are necessary preconditions to adopting flexible exchange rates.

Last October, the Treasury Department and the People's Bank of China signed an agreement for a technical cooperation program on financial sector issues. Treasury will conduct its first substantive meeting in Beijing later this month, and more will follow. In addition, Chinese Vice Premier Huang Ju has accepted Treasury Secretary Snow's invitation to come to Washington for a high-level discussion of these issues. Finally, the Treasury Department will shortly announce the appointment of a senior Treasury attaché in Beijing to act as the U.S. Government's special envoy on these issues.

Despite this progress, the Administration recognizes that more remains to be done. We are working closely with our Chinese counterparts to encourage them to implement key reforms and to move as quickly as possible to a flexible exchange rate.

Textiles: In its WTO accession agreement, China agreed to a special textile safeguard provision that allows WTO members to address surges in imports of textile and apparel products from China. This provision applies to textile products that have been "integrated" (i.e., no longer subject to quotas) into the WTO trade regime and that are causing market disruption. U.S. workers and companies will have access to the special safeguard on textiles through 2008.

In May 2003, the interagency Committee for the Implementation of Textile Agreements (CITA) published guidelines for how American companies and associations can file requests for consideration of special safeguard action. In July 2003, four textile associations filed petitions for safeguard relief for four product categories: knit fabric, gloves, dressing gowns, and brassieres. The petition regarding gloves was not accepted because certain gloves remain subject to quotas. After a period of investigation, CITA determined that imports of the three other products from China are causing or threatening to cause market disruption. In December, safeguard measures were imposed on these products and consultations requested with the Chinese. The first round of consultations were held in January.

Furniture Imports from China: On October 31, 2004, petitions were filed on behalf of the U.S. industry with the International Trade Commission and the Department of Commerce regarding imports of wooden bedroom furniture from the People's Republic of China. On December 10, 2003, the Commerce Department initiated an antidumping duty (AD) investigation on these products. On January 9, 2004, the International Trade Commission (ITC) made a preliminary affirmative determination that there is a reasonable indication that the U.S. industry is materially injured or threatened with material injury by reason of imports of wooden bedroom furniture from China. The Commerce Department is currently scheduledto issue its preliminary determination on April 28, 2004. The Commerce Department and U.S. International Trade Commission will investigate this case in full accordance with U.S. law and regulations.

Semiconductor VAT Rebate Policy: The Administration has repeatedly raised with Chinese officials our serious concerns about the discriminatory nature of China's application of value-added taxes (VAT) to imported semiconductors. Specifically, China provides VAT rebates for certain semiconductors produced and/or designed in China but not for imported semiconductors. We do not believe this practice is consistent with WTO rules requiring "national treatment" for imported goods. Although we have so far used bilateral channels to press China on this issue, we are prepared to seek WTO dispute resolution to address our concerns if necessary.

Senator ALLEN. I'll look forward to receiving that. And you can imagine that you and the administration will be receiving further proddings and encouragement and support for efforts to stop them from cheating and living up to their commitments.

Mr. KELLY. Well, we should, sir, because the fact is these are problems with this incredible economic growth that China has experienced. Bringing this huge new player into the international trading system in a legitimate and law-abiding way is a major American foreign-policy objective, and we're going to work on it. And this is something in which the spurring of the administration by the Congress is obviously a reality and appropriate.

Senator ALLEN. Thank you, Mr. Secretary.

The CHAIRMAN. Thank you, Senator Allen.

Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

Give us, Mr. Secretary, your analysis of the fact of China's influence over North Korea. For example, the circumstance, 6 monthsor so, I can't remember exactly when, in which North Korea had been particularly outspoken and boisterous, and suddenly the fuel was cutoff for about 3 days, and they seemed to change—they, the

North Koreans, seemed to change their tune, at least publicly. Would you recount for us that particular incident?

Mr. KELLY. Well, to the extent that we know about it, it was last February or March, and it was around the time that the then-Vice Premier Qian Qichen, former Foreign Minister, a very senior Chinese official, traveled to Pyongyang and prompted the first occasion of North Korea coming to the table. There was, we know, a shutoff of oil for some 3 days. I am skeptical, I think, of the official explanation of some technical failure. But the fact is, China is the supplier of last resort to North Korea of fuel, and I would say food, as well. Numbers of perhaps some $500 million a year turn up with some regularity. It's not clear how much of that is paid for by the North Koreans.

That said, there is this longstanding alliance relationship. There is this powerful desire for China to have a stable relationship, a powerful desire for them not to have thousands, even millions of new refugees from North Korea crossing their border and adding to their already huge population. So China obviously uses that influence with a great deal of caution. Whether, if we were in their position, which we certainly aren't, we would do it in that way is very doubtful. But the fact is, there is a steady influence that has at least brought North Korea to the table, and I think, in general, been positive on this. But it certainly hasn't been decisive.

Senator NELSON. But for the future, they clearly—it would be the policy approach of the U.S. Government that China is clearly a key, key player here, because their interest happened to coincide with our interest with respect to nuclearized North Korea.

Mr. KELLY. I would say, Senator Nelson, that their interests mostly coincide with our interests, and we want to emphasize that. But I'm not certain that, in every instance, that they do. And China is always pursuing its interests as it defines them. We do have a big overlap, and it's very much a part of obtaining a regional solution and is something that is very much supported by our allies, Japan and the Republic of Korea, as a useful process of engaging North Korea and fulfilling the President's goal of a peaceful resolution of their nuclear issue. But we haven't got there yet, sir.

Senator NELSON. You briefed the majority leader's delegation prior to us visiting China, as we were there on the eve of your arrival, and on the eve of discussions with the Chinese about North Korea—with North Korea present, by the way—in early April. It's interesting, as we would bring up these issues with the various leaders that we met with in Beijing, they all had a coordinated—it was almost like a rote kind of discussion—what you would think was at the top of their agenda was Taiwan. And they would always go through this litany of everything having to do with Taiwan. You would think that that was the more important thing to them than what we were there to talk about, which was primarily North Korea and, secondarily, owning up to stopping all of the fake information about the SARS epidemic, which was going on right at the time.

Your comments about the Chinese huffing and puffing about Taiwan to our delegation?

Mr. KELLY. The Taiwan issue is never far from any dialog that the PRC has with us, and our riposte is invariably the same. We cite our dedication to our unofficial relationship, that Taiwan must not be coerced, that our relationship with China is based on the three communiques and the commitment to peaceful resolution of that issue, in light of the difficulties inherent in China's military development.

It comes up time and again. Sometimes it's given more prominence in Chinese interactions with visiting delegations at one time or another. Your visit was just after the party congress, and I think there must have been some judgment that their domestic interests were best served by giving prominence to that.

There's been an increase in the tension that Chinese dialogs have had with North Korea since that time, but Taiwan is never far from hand in any of these discussions.

Senator NELSON. In our discussions, we always brought up the question of human rights. Is it the government's position, as well as our congressional delegation's position, that we are as committed to discussing, with the Chinese, human rights as it seems to be that the Chinese are committed to discussing relations with Taiwan?

Mr. KELLY. Absolutely, Senator Nelson. It invariably comes up in all senior and intermediate dialogs with China. As I've pointed out in answer to some other questions, we have a variety of serious issues, and we sense some deterioration in what we see as China's commitments and performances here, and this is very disturbing.

Senator NELSON. Mr. Secretary—I'll close with this—this morning's Los Angeles Times—has this been brought up at the hearing? The Los Angeles Times, this morning, is saying that North Korea has halted activity at its Yongbyon nuclear complex, where it's been holding thousands of nuclear fuel rods that can be reprocessed. What can you tell us about this, Mr. Secretary?

Mr. KELLY. Very little, Senator Nelson, in an open hearing. I think that is more appropriate to a briefing by intelligence or other officials, and we'd be happy to provide that to you, sir.

Senator NELSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Nelson.

Senator Alexander.

Senator ALEXANDER. Thank you, Mr. Chairman.

Mr. Secretary, I'd like to go back to the issues that Senator Sarbanes and Senator Allen talked about, particularly the question Senator Sarbanes asked, how are we going to work this out? And I think it falls in your portfolio or a broad portfolio, because, as I see it, as we look over the next dozen years in this country, our biggest economic challenge, our most difficult one, will be how do we keep too many of our jobs from moving to China, or appearing to move to China. And I would expect China to be the symbol for job losses, which may occur for a variety of reasons and which may go to many countries.

And I'm wondering, particularly given your background in foreign affairs, if we could look back a quarter of a century and learn some lessons from how we navigated this with Japan. I mean, we had almost the same thing. We had a richer country, but a smaller country. And 20 years ago, we could substitute China for Japan on

almost all the issues that have been raised this morning. All the books were about how Japan was going to eat us alive, and there were regular unpleasant visits between United States representatives and Japanese representatives, and—almost impolite. But the lesson may be that we did some unusual things to make sure that, as Japan grew and fit into the world marketplace with us, that we could tolerate it, that we could tolerate the job loss that came with it.

For example, I remember going to my first meeting of Governors with the President in 1979, and President Carter said to the Governors of American, "Governors, go to Japan and persuade them to make here what they sell here." And, as a result, the biggest Japanese import to the United States became something produced here, and that is cars and trucks. I mean, that was, by far, the largest dollar figure, and it made a massive difference. I mean, in our State, a third of the manufacturing jobs 25 years ago were textiles. Today they're automotive. And many of those are because of Japanese auto parts.

So we didn't just sit back. I mean, we insisted they follow the rules. We talked to the Japanese about their yen, their currency, all the time, it seemed like. We took actions involving with that. We took the extraordinary step of placing domestic content requirements on some of the things they sold here. We did—as I mentioned President Carter said, "Japan, make here what you sell here." And in addition to that, the successful—what I would call the successful resolution of all that came partly because Japan then went into a funk, into a big recession and weren't able to compete as well with us. But eventually their wage rates got up to a level that we didn't worry so much about that competition.

Now, how do we develop a broad policy, taking into account a variety of strategies, that looks over the next 10 or 15 years and keeps this jobs issue from poisoning the Taiwan issue, the human rights issue, the North Korean issue, the weapons-of-mass-destruction issue? I mean, that requires a big strategy, it seems to me.

Mr. KELLY. You raise a very important issue, Senator Alexander. But, first of all, we still have some problems with Japan and a big trade imbalance with Japan, despite its slow growth. The auto part of the trade deficit has changed in many respects. There are a lot of excellent Japanese cars that I'm sure, as you know, are made in Tennessee and sold around the U.S.

The good news, I suppose, is that China is not, at the moment, a major factor in automobile trade. And as it tries to grow, it needs higher-value components that are experiencing some growth in sales from the U.S.

The bad news, of course, is that China is very much determined to be a player, and it's going to be interesting to see how that goes.

Korea has gone through a similar pattern with Korean vehicles establishing a presence strictly as exports from Korea to the United States, and now they're looking and finding plant destinations here, as well.

Of course, Japan started from a much higher economic base of wealth of individual people than China does. And, in my view, that makes the China problem, not to mention the huge mass of the place, more troublesome. It also, of course, puts a burden on China,

as well, because it has got to bring along that whole 1.3 billion population, and Japan had a much more streamlined problem for them to deal with.

So I think there are lessons, but I'm not sure all of them are going to fit in similar ways. But obviously we need to look very carefully at those things.

Senator ALEXANDER. I would suggest, Mr. Secretary, that—in my experience, that maybe the most important lesson is to insist that the Chinese follow the rules. I would try to explain that to my Japanese friends during the 1980s, when I would try to get them to do what I thought was fair, in terms of buying baseballs and bats manufactured in America. We thought they were keeping those out. And they would say to me, "Well, that's such a small item. Why are you making such a fuss about that?" And my answer to them was that there's always going to be a big trade imbalance between Japan and the United States, just as I suspect there will always be a big one between China and the United States, but it's much easier for us to accept if you follow the rules. And I think that's an important part of our administration's position that will help.

Mr. KELLY. It is an important part of it, sir, and thank you for that impetus. Following the rules, bringing China fully under the WTO aegis, in fact as well as in aspiration, has got to be a part of the solution.

Senator ALEXANDER. Thank you.

The CHAIRMAN. Thank you very much, Senator Alexander.

Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman.

I would first note, I do associate myself with the comments of Senator Hagel and the chairman when it comes to soybeans. Very, very important. I'm glad you bring that up.

I'm not going to talk about the trade deficit issue. It's on all our minds. We're frustrated. Every one of us goes back home and talks to folks about losing manufacturing jobs, and they talk to China.

I found it interesting, not too long ago—your comment about Mexicans concerned about the low cost of labor in China.

And I'm wondering, one, clearly following the rules is absolutely essential. That's a given. But, you know, one of the, kind of, obvious realities we face is—and I'm not sure I have the numbers correct, but perhaps you can correct me—that the salary-per-year, wage-per-year, of the Chinese worker, about $1,200, versus an American worker, maybe $26,000. Is there any way to—how do you deal with that imbalance? How do you all overcome that gap?

Mr. KELLY. At that level, it's going to be a very long time. Now, obviously, some more skilled parts of Chinese labor are starting to inch up into the $5,000 and $6,000 range. These salaries would be for very skilled people. So there is a huge structural imbalance, and I think the solution of it has to do with the overall structure of our economies, as manufacturing will always be important in America, but services have also become important, as well.

But there's no way around that huge difference, and the solution, of course, is the power of compounding of China's aspiration of 8 and 9 percent economic growth. But, even so, under the best of con-

ditions, it's going to take a long, long time to build any kind of equivalence.

The other end of the story is, of course, of our productivity of our workers, which unquestionably is far ahead of that of Chinese, but the fact is they're making progress there, too.

Senator COLEMAN. But I just think we have to—and I concur, we've got to recognize that. I mean, we've got to recognize that productivity and ingenuity and all those things that we can bring to the table are important because of that reality of that huge, huge gap.

Let me, if I can, switch to one other issue. We just got back from a trip to sub-Saharan Africa with the majority leader and five of my other colleagues, looking at AIDS. A terrible pandemic, 40 million people in Africa are HIV positive. In South Africa, 5 million HIV positive, and 20,000 receiving anti-retroviral treatment.

China, looking at the public-health issue—I want to touch on that—did a rotten job with SARS. And throughout the world, folks are dealing with the consequences of that—didn't deal with it in an honest and aggressive way. The AIDS pandemic has not hit China to the degree it has hit Africa, but it's coming. And I'm wondering if you can give me any assessment of what's going on in China, in terms of dealing with AIDS, recognizing the serious concern, and whether there is the honest and aggressive approach that's going to be needed to stem the tide of AIDS in China?

Mr. KELLY. The AIDS story in China is a pretty sad one, because much of it, of course, has been spread by reuse of needles, and whole villages were selling blood, and almost everybody came down with HIV infections. And these tend to be very poor villages, and the actions that have been taken are not very good. China is slowly waking to the dangers of AIDS. Whether in a public sense, as has been, for example, the case in Thailand, the response will be adequate is in considerable question.

This is a major item of dialog and interaction between parts of our government—particularly Health and Human Services Secretary Thompson has certainly made this a major issue—and our overall HIV/AIDS work, as well, has a considerable focus on China. But there's no way to minimize the threat; it is a very serious problem.

The one item of hope is the Chinese started out with a terrible record, as you pointed out, on SARS. They got a lot better quickly. We hope they can get a lot better quickly on AIDS, as well. Though whether they're going to be able to treat adequately the people who are HIV infected in China is an open question. And to the extent these people are untreated, this can very much perpetuate the problem. And the spreading of HIV among truck drivers, and sources of that nature, can occur rapidly through the poorer parts of a poor and very large country.

Senator COLEMAN. It's my understanding that the commitment the President's made for $15 billion is focused on 14 countries—12 African, I believe, two in this hemisphere. Part of that discussion there is to look at what's happening there as a model so that we can then look to China and look to India and look to Russia to say, "Here's what working. Here's what's not working." There are good

things going on in Botswana, in terms of voluntary tests and confidential testing and then use of anti-retrovirals.

Is there a sense that the Chinese would be open to, kind of, gathering—taking advantage of the knowledge of the experience that others—that we might have gathered from our experiences in Africa or in this hemisphere regarding AIDS?

Mr. KELLY. I think clearly the cleaned-out health bureaucracy after the SARS event is receptive to that information. But whether they're going to have the kind of political support in local areas in China to pursue the solutions that are needed, I think, is an open question. I think this is very much a work in progress, and maybe the progress is pretty short now.

Senator COLEMAN. You mentioned Secretary Thompson's efforts. What else can we do? What can this government do to work with China? And do you see this as an avenue of strengthening relations—whether it be the governmental action, whether it be working with the drug companies, U.S.-based drug companies that are developing the ARVs, do you see this as any avenue of opportunity for strengthening ties?

Mr. KELLY. Yes, sir, I do. We don't, of course, have an aid program with China, but this is an area where funding for non-governmental organizations, and particularly in the area of HIV, could be particularly fruitful. And we have had a number of instances and several programs for working within China on this problem.

Senator COLEMAN. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Coleman.

At this juncture, I suspect that it would be best to relieve Secretary Kelly of his role, because we have an excellent panel, and Senators have obligations with regard to memorial services. If there are impelling questions, I'll recognize them, but——

Yes, Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I just want to make one parting comment to the Secretary.

I was struck by your responses to the questions, particularly by Senator Alexander, where he mentioned the China-Japan issue, and how we work it out. There was no reference on your part to the relevance of democratic values and human rights concerns with respect to the economic questions.

Clearly, one of the reasons that wage rates rose in Japan to eliminate some of that enormous gap that existed was the fact that they had free political institutions and free trade unions. And, therefore, the society was in a position, on the part of ordinary working people, for pressure to be brought to bear, that they should have a greater share in the economic returns, so that the ordinary person would benefit from that. And that served to, in effect, to narrow that gap.

Also, when you have dissidents and people expressing dissenting opinions, you have an opportunity to question public policy and to have it adjusted to better serve ordinary people. And I think that took place in Japan. I have serious questions whether that's happening in China, which I think is another explanation for the continuation of this very substantial gap. There's a growing body of development economists who have established the link between gov-

ernance structures, political freedoms, human rights, and economic development, and have countered the view that existed quite some time ago that they were just entirely two separate categories without an interrelationship, one with the other.

And I was struck by the fact that you made no reference to that in those responses, and I just wanted to leave that comment with you as you prepare to depart.

Thank you, Mr. Chairman.

Mr. KELLY. Senator Sarbanes, thank you. Your criticism is very well aimed. That's a crucial difference, and I should have made that point.

Thank you, sir.

The CHAIRMAN. Thank you very much, Secretary Kelly. We appreciate, as always, your testimony and look forward to seeing you again soon.

The Chair would like to announce now a panel composed of Dr. Nicholas R. Lardy, senior fellow, Institute for International Economics, Washington, DC, Dr. Kurt Campbell, senior vice president and director, International Security Program, CSIS, in Washington, DC, Mr. T. Kumar, advocacy director for Asia and Pacific of Amnesty International USA, in Washington, DC, and the Honorable Harold Brown, counselor and member, Board of Trustees, CSIS, of Washington, DC.

Gentlemen, we are pleased to welcome you to the hearing this morning. I'll ask that you testify in the order that I introduced you, which will be, first of all, Dr. Lardy, then Dr. Campbell, Mr. Kumar, and then Secretary Brown.

If you wish to summarize your remarks, that would probably be helpful. And let me just say at the outset that your full text will be made a part of the record, so that you need not ask for permission that that occur.

Let me call now upon Dr. Lardy for his testimony.

STATEMENT OF DR. NICHOLAS R. LARDY, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Dr. LARDY. Thank you very much, Senator Lugar. I very much appreciate the opportunity to appear before you. Of course, I have admired your work on this committee for many years, so it's a special privilege to be here.

Your staff suggested that you'd like to hear something about the currency issue. That's already been raised several times this morning, so I will address that. I will also try to address a little bit the internal domestic economy, if time allows.

I have prepared a number of diagrams [1] that I think will be helpful in elucidating some of these complex issues as we go forward, and I will begin with the currency issue and just simply review briefly where China is in terms of its overall economic interactions with the rest of the world, and then focus particularly on the United States.

In the first diagram, I'm simply looking at China's current account. As you can see, China has had a fairly sustained current ac-

[1] The diagrams referred to appear beginning on page 34.

count since it pegged its currency to the dollar at the beginning of 1994. It has averaged about 2 percent of GDP over this time period, a little under $20 billion, and it was about $35 billion last year. So they are running a surplus on their trade and related current account transactions.

The second diagram also shows that China has run, in most years, a capital account surplus since it pegged its currency. This has averaged about 1½ percent of GDP since the Asian financial crisis in 1997/98.

The third diagram takes you to the buildup of foreign exchange reserves. What we see is that these current and capital account surpluses and, more recently, substantial hot money inflows have added substantially to China's foreign exchange reserves. They have been intervening in the market to prevent the rate from appreciating above 8.3 to the dollar. Reserves went up by about $120 billion, cumulatively, in 2001 and 2002, and they have been going up steadily by about $10 billion a month in this year.

Now, the purchases of dollars, which are accomplished through the sales of domestic currency, have added about one trillion RMB to China's money supply over the last 18 months. Although China has sterilized a substantial portion of this increase and almost all the increases that has occurred since late April, the continued buildup of foreign exchange reserves is beginning to pose significant problems for monetary policy. I will come back to that at the end, if time allows.

I think the evidence supports the view not that China should float its currency, as Secretary Snow has proposed or has been mentioned, I think, by some members of the committee. We have to recognize that China's banking system is extremely weak, that households have the equivalent of more than one trillion U.S. dollars in savings accounts, and if they were given the opportunity to convert these into U.S. dollars or other foreign assets, they would certainly take advantage of this, and perhaps to a considerable extent. I think it is quite likely that if China floated its currency, that the value of the RMB would depreciation, not appreciate. So I think we should be very cautious when we recommend to the Chinese that they float their currency. I think it has the potential to cause many problems in its domestic economy, with significant implications throughout Asia, and that it would move the currency in a direction that would be contrary to our interests.

I have argued that they should, instead, revalue their currency. And if you take a look at their overall position in the trade and capital flows, I think the underlying fundamentals suggest that they should revalue their currency approximately 20 percent. You could argue maybe it should be 15 percent, maybe it should be 25 percent, but it's somewhere in that range. And I say that because what they really need to do is get their current account down to be slightly negative, which would be offset by their capital inflows, which have been about 1½ percent of GDP.

I want to turn to diagram 5 and explain what the implications of this would be for the United States. This is a diagram that I originally prepared for Secretary Snow. It simply breaks China's trade balance down into what their global balance is, what their balance is with the United States, and what their balance is with

the rest of the world. And, as you can see, the red line is their surplus with the United States, standing at about $104 billion last year. The bottom negative line, the yellow line, shows that they have a growing deficit in their trade with the rest of the world. And then the blue line shows their overall trade balance. Their overall trade balance is positive, but the number is not as large as some people imagine. Last year, it was only about 30 billion U.S. dollars.

So you take into account the relative size of China's trade with the United States, if they were to revalue their currency by about 20 percent, I estimate that the effect on the bilateral trade with the United States would be to reduce their surplus by about $10 billion. This, of course, would occur over a period of time as the effects of the exchange-rate change would work their way through the system. So the likelihood is that a 20 percent revaluation would not lead to a shrinkage in our deficit with China. It might cause a slowdown in the rate of growth of that deficit for a period of time as the adjustment process worked through, but I don't think a revaluation, which is justified on the fundamentals, would lead to a shrinkage in our bilateral deficit with the United States. I think there's a great deal of misunderstanding about this. China cannot set its currency to reduce its trade surplus with the United States to zero, because at that point it would have a gigantic overall deficit.

So we really have a very difficult problem. I think it is a structural problem, and not one that is going to be resolved through exchange-rate policy changes on the Chinese side. And it really stems from the fact that was alluded to by Secretary Kelly, that China has opened itself up for so much foreign direct investment and that it has become a major manufacturer of goods that used to be produced elsewhere in Asia.

As a consequence, because most of this activity is assembly operation, China is buying huge quantities of parts and components, but largely from other Asian countries. China runs its biggest trade deficit, for example, with Taiwan. Last year, they had a $25 billion deficit in their trade with Taiwan, because all the Taiwan companies that have moved to the mainland are buying high-value-added parts and components from their traditional suppliers, bringing them into China, assembling them, and then selling them to the United States, Europe, and other high-income countries.

The changes in the exchange rate that would be reasonable for China to adopt, given its surplus on both the capital account and the current account, would not likely have a big impact on the bilateral deficit that we are suffering with China. In effect, it stems largely from the openness that China has to foreign direct investment and the fact that a great deal of labor-intensive manufacturing has moved to China.

Now, I want to say something next about how open the Chinese economy is. I think several questions today pointed out quite clearly, and I think for the most part, quite accurately, that China is not in full compliance with all of the commitments that it made when it joined the WTO. Nonetheless, I would argue that it is a remarkably open economy. And the diagram on page 6 simply shows, over the last 10 years or so, that imports as a share of GDP

have increased from a little under 15 percent to a little under 25 percent. They have increased by two-thirds over this period. Their imports have grown from $53 billion in 1990 to about $300 billion last year.

China is roughly three times more open than Japan. This year, for the very first time, China is going to import more than Japan does. Japan's economy is roughly 3.2 times the size of China's. So here is an economy that is much, much smaller than Japan's, but importing, actually, more as a result. In Japan, imports are about 8 percent of GDP. As you can see from the diagram, China's imports are almost 25 percent. They're also well ahead of the United States, for example, on this measure.

In addition, I think it's useful to note that foreign companies in China are playing a very big role in making the place more open, as well. They now produce about a fourth of all manufactured goods, and a little over half of those goods are sold on the domestic market. So if you take the combination of what's imported into China and what's produced by foreign firms operating in China, by last year this was more than 40 percent of GDP. This is an extraordinarily open economy, by these measures.

Yes, they are certainly not in full compliance with several of their obligations, but they actually have, in comparative terms, a relatively open economy.

I would say that one of the best pieces of recent evidence of how open the economy has become is the extremely rapid growth of imports this year. As China's growth has accelerated, particularly in the first half, their imports in the first 8 months of this year exceeded 250 billion U.S. dollars. That's an increase of more than 40 percent over the import levels of the prior year. And if you go back and think of the first diagram, on the current account, the current account is falling very dramatically this year, because imports are growing much, much more rapidly than their exports.

So, yes, they're out of compliance on some things, but I think they have become substantially more open and are quite open compared to many other economies.

I did say, at the outset, I would try to say something about the domestic economy. The most important thing to understand now is that China is currently in a phase of accelerating growth based largely on an unsustainable expansion of domestic credit. In the first half of this year, for example, loans outstanding increased by 1.9 trillion RMB. Last year in the same period, they increased by about 900 billion. So there has been an absolute explosion of credit. Relative to gross domestic product, the increase in credit is at all-time high.

So I think we are now approaching or are perhaps at a peak of the macroeconomic cycle. Inflation is accelerating and imports are growing extraordinarily rapidly relative to exports. The challenge China now faces is the need to rein in credit growth before inflation accelerates further, but without stepping on the brakes so hard that the economy falters, in terms of its underlying economic growth.

And I would go back and argue that I think one of the most compelling arguments for China to revalue is that the buildup of foreign exchange reserves has contributed significantly to the exces-

sive growth of credit over the last two to three quarters, and that it is in their own self-interest to revalue. If they don't, increasingly there will be more problems on the monetary policy side.

In effect, their exchange-rate policy and their domestic macro policy are currently working at cross-purposes, and a revaluation would bring them into congruence and would help them with their domestic macroeconomic management.

Thank you very much.

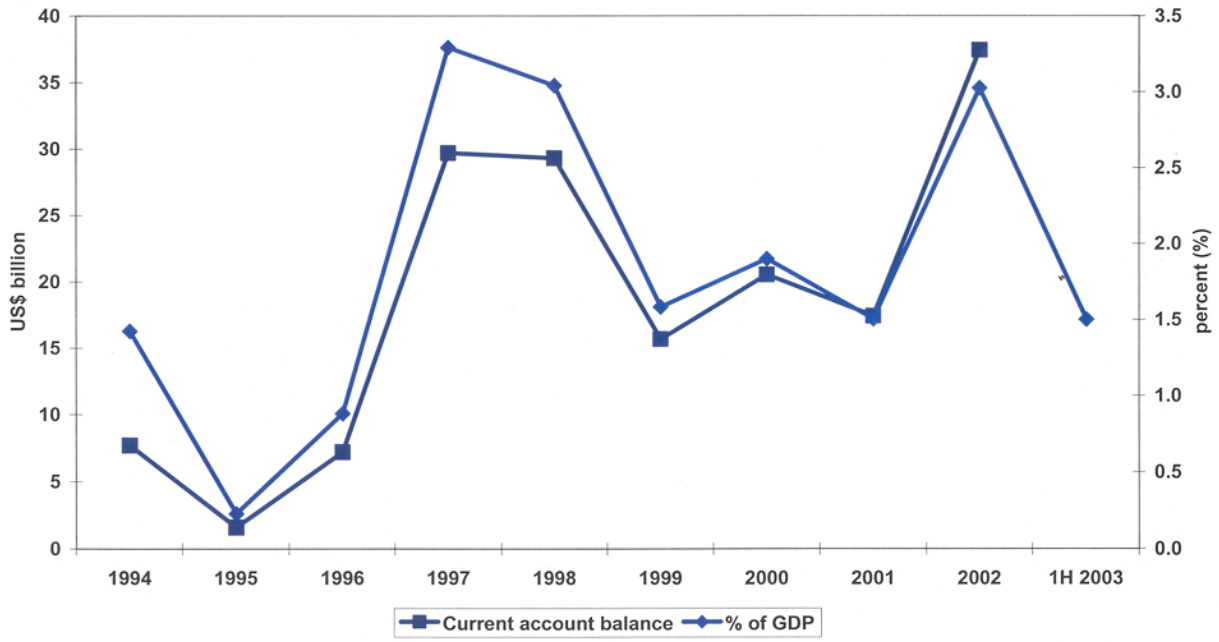
[The prepared statement of Dr. Lardy follows:]

Hearing on U.S. - China Relations:
The State of China's Economy

Nicholas R. Lardy
Senior Fellow
Institute for International Economics

U.S. Senate Committee on Foreign Relations
September 11, 2003

China's Current Account, 1994-1H 2003



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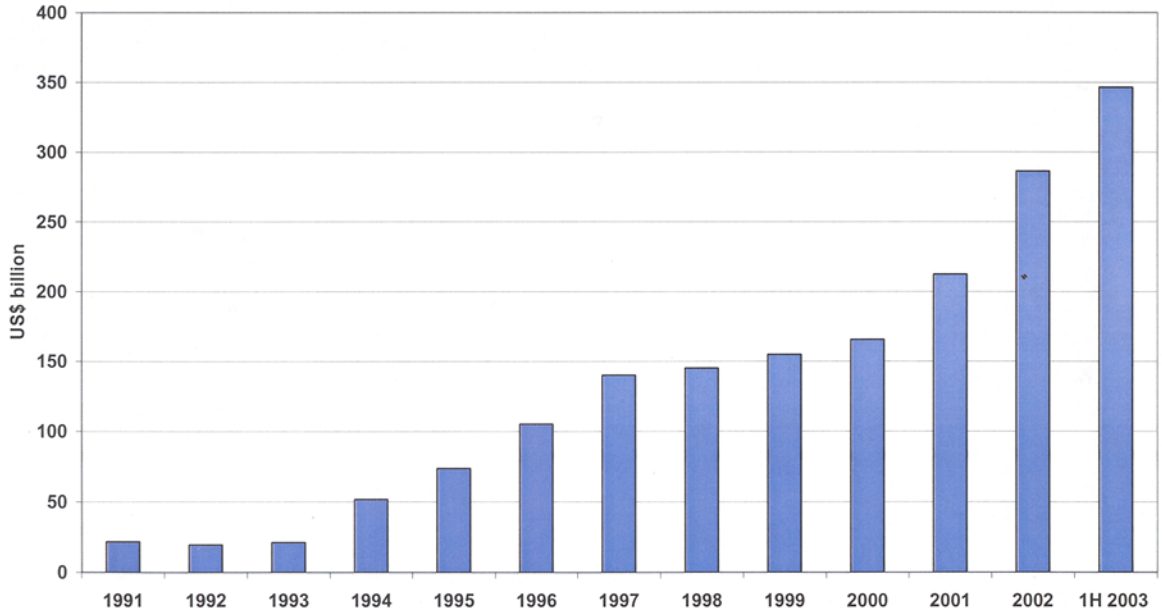
PRC Official Foreign Exchange Reserves, 1991-1H 2003



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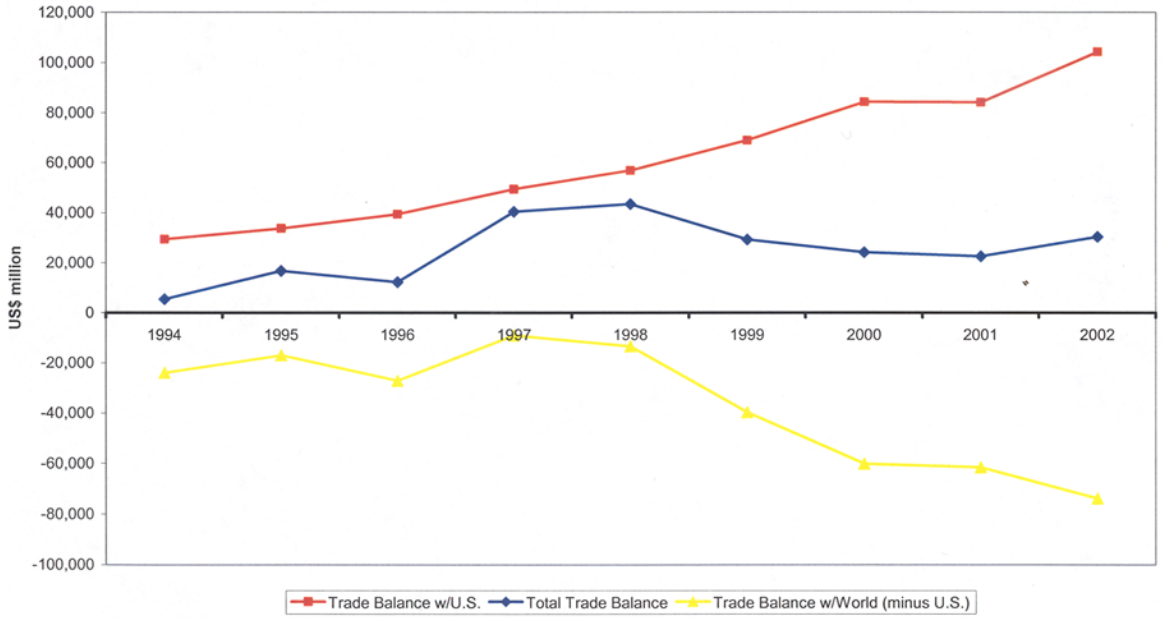
China's Trade Balance, 1994-2002



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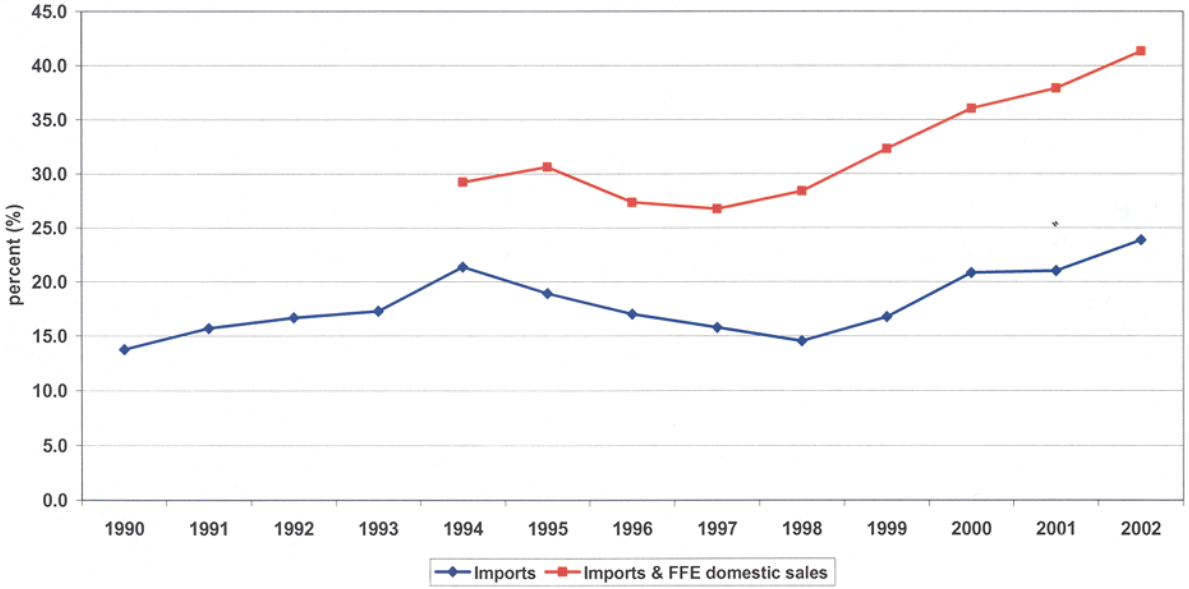
Openness of the Chinese Economy: Imports and Domestic Sales of Foreign Affiliates as a Share of GDP, 1990-2002



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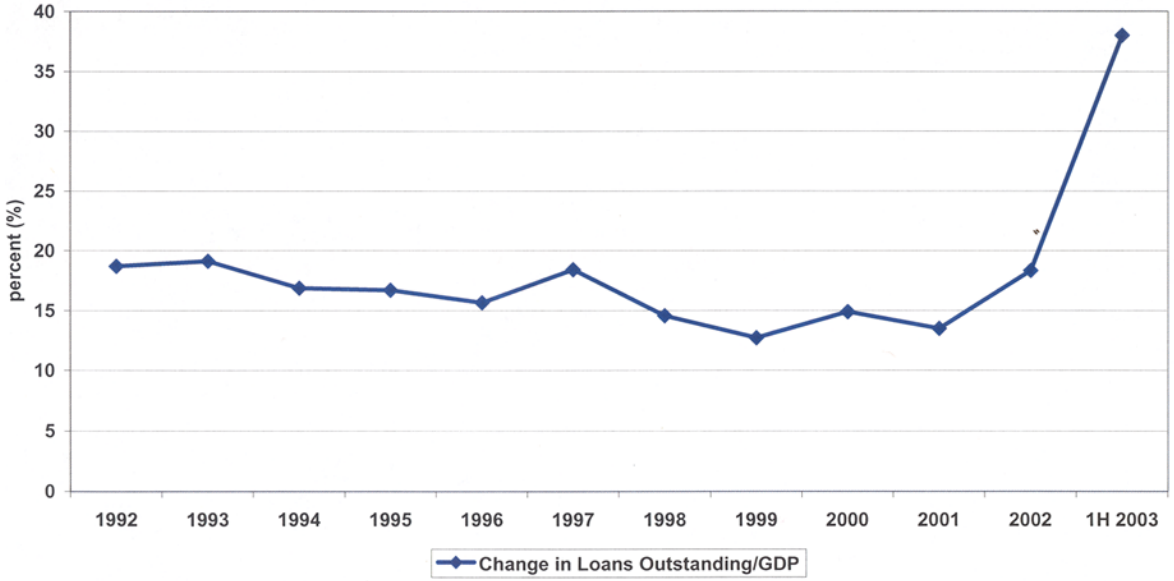
Change in Loans Outstanding relative to GDP, 1992-1H 2003



Nicholas R. Lardy
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The CHAIRMAN. Well, thank you very much, Dr. Lardy.

Dr. Campbell.

STATEMENT OF DR. KURT M. CAMPBELL, SENIOR VICE PRESIDENT, HENRY A. KISSINGER CHAIR FOR NATIONAL SECURITY, AND DIRECTOR, INTERNATIONAL SECURITY PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC

Dr. CAMPBELL. Thank you very much, Mr. Chairman. It's an honor to appear before the committee, and I thank you and your colleagues for your service and leadership on these and other issues.

I've been asked to talk today about China's rise influence in the region, I think following on what we've heard earlier from Assistant Secretary Kelly today. And I think it's probably appropriate to begin 2 years ago today, on this tragic day, September 11, and think a little bit about how September 11, 2001, has influenced the U.S. role in Asia and, by association, China.

But before we look at that, let's look just quickly at the conventional wisdom about the United States on September 10, 2001, what we expected in terms of American focus and strategic priorities.

I think the belief was then that every major challenge to peace and stability was found, for the first time in our history, in Asia rather than Europe. Dangerous situations still exist today on the Korean Peninsula, increasing militarization across strait between China/Taiwan, and, of course, the very provocative nuclear rivalry between India and Pakistan. I think there was an expectation that—sort of like, Bonnie and Clyde, you know, this is where the bang starts, so that's where we'd be focused—that we would be focused like a laser on Asia.

During the campaign, there was a lot of discussion about how China would be a strategic competitor of the United States, and we were heading toward a circumstance where you could really easily see long-term structural competition on a strategic level between the United States and China.

September 11 changed all that, for very dramatic reasons, and I just want to run through a few, Mr. Chairman, that I think would be of interest to the committee today.

The first and most important development since September 11 is the United States has been preoccupied in a way somewhat from Asia, focused on other issues and not focused as much on Asia as we had anticipated—much more focused on the Middle East, on South Asia, on the rise of Islamic fundamentalism elsewhere, and I think only periodic attention to these and other issues in Asia.

Second, because of changing conditions associated with the rise of terrorism, U.S.-China relations are the best they have ever been. And one of the interesting things, there was a lot of discussion and critique about this concept of a constructive strategic partnership between the United States and China with really tough attacks during the campaign. But the irony is, having come to power, the Bush administration has actually built a constructive strategic partnership with China. U.S.-China relations are probably stronger today than they ever have been. This is probably the first adminis-

tration in history, if anything, that under-exaggerates how strong U.S.-China relations, where every other administration in the past, if anything, has exaggerated it.

The third reason that we've seen big development, and as a consequence of these first two, is the rise of substantial prominence of China in Asia, and you see that everywhere. It's felt in Japan. It's felt in Korea. And it's particularly felt in Southeast Asia. Even though, by every measure, the United States is the greatest power on the globe today, if you walk the hallways and the business corridors of Asia, the dominant power in the region is China—in many respects, stronger in certain circumstances, than even the United States.

There are many reasons for China's gain in prominence, and I'm just going to review three of them for you quickly, Mr. Chairman, today. First, although many of the goals of China and its leadership have not changed in Asia—I think we still have some concerns about Taiwan—we've discussed this—we have concerns about the Spratlys in the South China Sea—their style has changed notably. I used to remember when I was in government, a few years ago, you could always count on the Chinese diplomat or military representative either to sit in stony silence or to make a scene—you know, sometimes, you know, throwing up arms, knocking over things. That's changed dramatically. China is much smoother, much more careful, much more sophisticated. They've come up substantially on the learning curve, in terms of how to deal in international circumstances. And nowhere is that more clear than in complex situations in Asia, as a whole.

On disputatious issues, like China, like Taiwan, and the South China Sea, they're taking the longer view. And I think what you hear more and more is that time is on our side. You hear that reflecting throughout discussions in Asia, as a whole.

Second, as a result of some of the things that Nick has talked about, there is almost a China fever, in terms of investment and interest. If you talk to most European companies, American companies, and, indeed, most Asian companies, there is a rush to get into the China market, both in terms of investments and manufacturing. And many countries in Southeast Asia look at the geography and think, "China's going to be our neighbor for a thousand years. I'd better cut my best deal now." And so the smart countries in Southeast Asia who see China moving rapidly up the ladder, in terms of the sophistication of their manufacturing, have decided to try to cut their deal as quickly as possible.

The third reason—and this is interesting—is I think the United States, in many respects, has facilitated China's rise in a way that perhaps is occasionally unintentional. Just a few years ago, I think we had some misgivings about ceding to China a really dramatic and important role in certain Asian affairs. But, for instance, on the Korean Peninsula, we have welcomed it, we've encouraged it, and we've actually opened the door. They key player in the six-party talks, in many respects, is not the United States; it's China. China is the convener, the cajoler. They are playing the role as the major diplomatic power in Asia on the Korean Peninsula, not the United States. And we have asked for that.

Now, let's just look quickly into the future. What are the challenges that China will face in the region as we go forward? I think the first and most important challenge that they're going to face is on the Korean Peninsula, itself. I think they're coming to the realization that, over the long term, the current leadership and the structure of the situation on the peninsula is unsustainable. In the short term, they're trying to both sustain the North Korean leadership and try to prevent North Korea from acquiring a substantial nuclear capacity. I think North Korea's becoming so inconvenient that they're starting to think about developments on the Korean Peninsula that will take us beyond the current leadership. And they are building relations, very close relations, with our allies in South Korea at a time that our relationship with Seoul is particularly strained.

Second, Japan. Japan is simultaneously a partner of China in many areas, a big investor in China, and it's also a historical nemesis. It's probably the most complex relationship in Asia. If the rise of China is challenging for the United States, double that and that's what you've got in Japan. Japan feels that China's rise, in many respects, comes at its expense, and the notion of Japan passing is now part and parcel of the Japanese psyche when it thinks about developments in the region, as a whole.

Third, the rise of Muslim/Islamic movements in Southeast Asia. When we talk about the challenge of Islamic terrorism, we often think elsewhere. We think about Iraq now, Iran, the Middle East. But the reality is that the largest population, sort of, the hearts-and-minds problems that we'll face, will be in Southeast Asia. Indonesia, in particular. If you made a list of those countries that were important to the United States that the United States didn't realize were important to it, Indonesia would be No. 1. China also feels threatened by Islamic fundamentalism, both at home, in terms of their groups in the West, which they have ruthlessly suppressed, but also in the region, as well, and they want to work with the United States and also reach out to moderate countries in the region as they go forward.

Last, the situation in Taiwan. This situation, in terms of the increasing militarization does not serve China's long-term interests. And with their gathering power and influence, the hopes are that they will find a better and different way to deal with this democratic island in the Pacific.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Campbell follows:]

PREPARED STATEMENT OF DR. KURT M. CAMPBELL, SENIOR VICE PRESIDENT, HENRY A. KISSINGER CHAIR FOR NATIONAL SECURITY, AND DIRECTOR, INTERNATIONAL SECURITY PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

CHINA'S NEW PROMINENCE IN ASIA

China's rise in regional prominence in geostrategic, political, commercial, and indeed, cultural terms has been felt throughout Asia and has been one of the most significant developments of the early 21th century, rivaling in many respects the change of international circumstances associated with the new realities brought about by the global war on terrorism. China has always been a latent or prospective power player in Asia but recently its influence has been felt across a broad front. Signs of China's new found influence are evident in the delicate diplomacy on the Korean peninsula, in China's high stakes currency valuation deliberations with key western monetary officials, and on crucial transnational issues such as global envi-

ronmental concerns and health matters. It was only a few years ago that many in the United States openly worried about the prospect of China playing a larger regional and military role in Asia. Indeed, the Bush campaign was critical of the very notion of a "constructive strategic partnership" between Washington and Beijing and was wary of the rise of Chinese power in the East. Strategic competition was to be the watchword for coming U.S.-China interactions. However, having come to power, the Bush administration has actually built a constructive strategic partnership with China, a relationship the likes of which has never existed between our two countries. While there continues to be considerable uncertainty and suspicion among conservative elements in both societies, the United States and China are cooperating more closely than ever before—in the intelligence arena, diplomatically, and in larger global political pursuits—and the U.S. has even helped provide the context and conditions for China's recent ascent.

Since September 11th, 2001, American foreign policy has been understandably preoccupied with immediate challenges posed by fundamentalist Islam and the security problems in the Middle East. While there was an expectation in the waning years of the 1990's that Asia would be the next major focal point of strategic preoccupation for the United States—with a still divided and militarized Korean peninsula, tense cross Strait dynamics, and dangerous nuclear rivalry between India and Pakistan—9/11 changed all that. Instead, U.S. focus and resources are increasingly directed towards the Middle East and South Asia, and Asia has received only periodic high-level attention, most recently during the increasingly tense diplomacy over North Korea's nuclear status and ambitions. But while 9/11 diverted American attention away from Asia in some respects, it has also created the context for China's new profile as well as for greater cooperation between the two powerful states of the Pacific. China has provided consequential assistance in the intelligence and diplomatic arenas in the ongoing war on terrorism and the very tenor of the relationship as a consequence has changed markedly and for the better. The period when a U.S. military plane crew was held against its will on a Chinese island amid escalating tensions between Washington and Beijing seems a distant memory. Conservative commentators who were very publicly concerned over China's military buildup across the Taiwan Strait, and of Beijing's larger ambitions in the region, are now curiously silent (even though worrisome military trends continue) and as Secretary of State Colin Powell said the other day, U.S.-China relations are "the best they have been since Nixon". Indeed, it has been a shared bipartisan tendency to exaggerate the health of U.S.-China relations once at the helm of the diplomacy, but if anything, the Bush administration has downplayed the significance and depth of the recent closeness between Beijing and Washington.

China's rise to prominence has other important dimensions as well. Partly because of domestic preoccupations associated with the leadership transfer and partially because of an undeniable learning curve in the handling of delicate international matters, China's manner of diplomacy has evolved considerably in recent years. While in the past, China's diplomats and military representatives were noted both for their lack of candor and publicly staged tantrums, current representatives of the People's Republic are handling a host of challenging problems with a surer touch and a much more effective approach. China's has been far more subtle in its recent international interactions and much more adept in multilateral dialogues, taking pains to seem in tune with regional interests and sensibilities. For instance in the past, it was often China that resisted multilateral efforts at cooperation and institutionalization in regional dialogues such as the ASEAN forum, the cornerstone clustering of the Southeast Asian community. Now, however, it is not uncommon to find China taking a leading role in such gatherings, sometimes offering up ambitious and creative initiatives, to promote regional dialogue and discourse. China appears to recognize the political value of working through regional forums as a confidence-building measure and as part of its "charm offensive" strategy, particularly in Southeast Asia, to help allay concerns about its rising power and influence, even while it is profoundly changing the dynamics of regional economies and politics.

Ironically, in many circumstances it is now the United States that is resisting or demurring from active participation in these multilateral venues, preferring instead to deal with many complex matters through traditional bilateral avenues (except of course on North Korea). Indeed, when it comes to multilateral institutionalization and cooperation in Asia, it is as if the United States and China have changed places. China now appears much more comfortable in many multilateral forums, while the United States sometimes appears to be a powerful, but solitary actor, hesitant to engage in deeper institutional discussions.

While there are complex reasons for this change in course in both the United States and China, China's new found enthusiasm for closer dialogue and ties—with Southeast Asia in particular—have won it substantial kudos and more benign re-

gional assessments. In the past, most of Southeast Asia was deeply ambivalent about China's rise, fearing that an increase in Beijing's power would invariably lead to greater belligerence and bullying. However, at least the early experience of China's recent ascension suggests a greater degree of comfort among most of the key Southeast Asian players, particularly at the level of strategic interaction. China's military representatives and diplomats are much more aggressive in their regional politicking than ever before, and this sustained regional engagement reveals a much more sophisticated approach from Beijing than we have seen in the past.

However, it is on the issue of North Korea that China's newly acquired significance is clearly revealed. The Bush administration has made very clear both publicly and privately that the key to the resolution of the North Korean matter lies in China playing a much more robust and public role in the multilateral diplomacy with Pyongyang. The recent Chinese hosting of the six party dialogues in Beijing, while unsuccessful at least initially in eliciting North Korean concessions, was a manifest demonstration of China's new role as power broker. The United States in the past has been either deeply ambivalent or opposed to China playing such a prominent role, potentially at America's expense, but this time the United States helped engineer and encourage the session to take place. This undoubtedly reflects the Administration's confidence in American power and reach in Asia and while this is undoubtedly true, many nations believe that they are witnessing the arrival of the next great power in Asia before their eyes.

The commercial dimension of China's rise poses more complex trade offs for all of Asia and indeed for the entire industrialized as well as developing world. Its rapidly expanding manufacturing base provides enormous temptations for industries both high tech and low to relocate and there are associated investment opportunities that are virtually unparalleled in the world. There has been a massive increase in foreign direct investment in China and increasingly, global business enterprises based in Europe or the Untied States will look at China as an Asian outpost before they will consider hubs in either Southeast Asia or Japan and Korea. These trends are reshaping the commercial, manufacturing and investment maps of Asia and with it, the very nature of economic interaction within and across the Pacific. In the last few years, inter-Asian trade and investment—largely spurred by the growing opportunities in China—has surpassed commercial interaction across the Pacific with the United States.

While currently the United States is the only true engine of growth in the global economy, there are signs that China has the potential to play a similar pivotal role, at least in Asia. Most commercial groups and governments in Southeast Asia have a deep and profound sense of these trends and regard them with some foreboding. Many key Southeast Asian business groups in the midst of a complex process of striking long-term bargains with Beijing that will have long lasting political and commercial significance. China's economy is a potential Colossus and smart south Asian countries like Singapore, are thinking creatively about the best ways to strike enduring partnerships that are sustainable even with mounting Chinese gains in productivity and wealth.

This is not to say that there are not real worries about China's ambitions and intentions in the region. Although China has handled many recent diplomatic issues, such as the increased Japanese security role in world affairs, with greater grace than in the past, there are still clear examples of the traditional clumsy approach to crises that we associate with a harder line, communist China. For instance, the cover-up of the spread of the SARS epidemic cost thousands of lives and billions of dollars for China and Asia as a whole, and could have been dealt with much more effectively with greater and earlier Chinese transparency and diplomatic engagement. So to, the continuing military buildup across the Taiwan Strait is an ominous forewarning of trouble ahead unless Cross Strait issues can be dealt with through more peaceful and diplomatic means. While China has largely suspended its very public threats and condemnations of Taiwan, there can be no doubt that Taiwan occupies a unique place of import among China's policy-making elite. There are clear anxieties throughout Asia that either through miscalculation or provocation, the Cross Strait situation could spin out of control, and while most are reluctant to openly criticize China's continuing military buildup here, it is a source of anxiety throughout the region.

China has also been seemingly more patient recently when it comes to the handling of the periodically tense issues surrounding the legal and territorial status surrounding the South China Sea and Spratlys, favoring a kind of code of conduct to facilitate joint use and to prevent military clashes. China has not changed its essential position on sovereignty, but on this matter, as on other issues, Beijing—with a full appreciation of its accumulating power and influence throughout the region—is taking a longer view with a sense that time is on China's side.

China faces three enormous regional challenges in the years ahead in East Asia alone. One is dealing with the clearly untenable situation on the Korean peninsula. Its erstwhile ally in North Korea is continuing to act in ways that undermine China's own long term interests and Beijing must begin to think hard about political outcomes on the peninsula that involve regime change in North Korea, as difficult and unpalatable as that prospect is. China has taken pains to cultivate a closer relationship with South Korea, to a great effect, and is well positioned to have a prosperous and stable relationship with a successor political arrangement on the Korean peninsula. Yet, North Korea shows no sign of political collapse nor real internal reform and China must now consider more intrusive options to help determine the fate of Pyongyang's current rulers.

China's second greatest challenge is in developing a better relationship with Japan, simultaneously a regional rival, commercial partner, and historical nemesis. While China's rise provides very obvious challenges for the United States, there are probably more urgent anxieties in Japan associated with Beijing's greater regional prominence. Many in Japan fear that China's rise has come at Japan's expense, and there is a real sensitivity to a growing and pervasive regional pervasive regional mindset that is best captured with the term "Japan passing". While Japan and China have recently taken pains to portray their relationship as on the upswing, there are clear and undeniable tensions just beneath the surface.

The third challenge is in relation to the rise of Islamic fundamentalism, both inside China's borders in the western hinterland and in the surrounding region, particularly in Indonesia. China fully appreciates that it too is a target of militant Islam and that regional stability in Southeast Asia in many senses hinges on how this most delicate issue is handled both by the region's ruling elite and outside actors. China's main strategy at home has been to practice brutal repression against Muslim minorities but there are recent signs of closer Chinese ties with a range of states in Southeast Asia with substantial Muslim populations, including Malaysia and Indonesia.

There is a tendency in Asia to make bad judgments when it comes to power predictions and hegemonic transitions. For instance, it was in 1986 that Soviet Premier Mikhail Gorbachev traveled to Vladivostok to give a speech about a new Soviet strategy for Asia. Many commentators in Asia subsequently surmised that we were heading into a new era of Russian dominance in the Pacific. Laughable as that seems in retrospect, the notion of more dominant soviet position in the Pacific dominated discourse for several years following. Further, in the late 1980's and early 1990's, it was a common refrain to hear that the Cold War was over and Japan had won. It was commonly expected that Japan's remarkable economic rise would continue unabated and the country would acquire greater political and military power, potentially rivaling the United States. There was also the profound belief in the very idea of an American decline and anxiety throughout Asia that the United States was a spent force, humiliated in Vietnam and exhausted by the Cold War. Obviously the United States is back with enormous influence springing from our continuing commercial prosperity, our unparalleled military power, and our ability to harness the forces of globalization.

The same kind of gold rush mentality also influences our calculations on the course of China's rise. It has become the common conventional wisdom that China's rise is inevitable and that 8¼ a year growth figures will continue into the future as far as the eye can see. The reality, of course, is China faces enormous domestic pressures and problems, and there are daunting challenges ahead that could well stymie China's modernization and rise to regional prominence. Although it is wise to plan and prepare for China's rise, it is also prudent to consider its potential failings, either politically or economically. Either way, the course of and prospects for China in the world will be one of the most important and multifaceted challenges facing the United States in the 21st century, with enormous stakes for both success and failure. The United States has a deep interest in China's success, but our overriding objective must be to see that China's ascent does not come at our expense, or at the expense of our regional friends and allies.

The CHAIRMAN. Well, thank you very much, Dr. Campbell.

Mr. Kumar.

STATEMENT OF MR. T. KUMAR, ADVOCACY DIRECTOR FOR ASIA AND PACIFIC, AMNESTY INTERNATIONAL USA, WASHINGTON, DC

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

Amnesty International is extremely pleased to be here to testify on this important topic and also on an important country.

As far as Amnesty International is concerned, the human rights situation in China has gone from bad to worse. Our opinion is not only shared by other human rights organizations, it's also shared by the administration, itself. Even today, we heard Secretary Kelly give testimony to that effect.

Before I go into details, I just want to give you a list of human rights abuses that are taking place in China. The list is pretty long, so I will summarize the important ones. And the list is growing by the day there.

First, the Chinese are holding tens of thousands of political prisoners. Tens of thousands. They have been imprisoned without charge or trial. If there are any trials at all, they are unfair, and sometimes they are closed-door trials. Most of the time, the admission of evidence is obtained through torture.

As for the human rights perspective on religion, every religious group that operates in China which doesn't have the government's authority or permission gets persecuted. Christians are number-one on the list, Tibetan Buddhists, second, then Muslims in the West.

The death penalty is practiced on a routine basis. China executes more people than all other countries combined. And we also have reports that China is harvesting organs from executed prisoners for transplant purposes. This has become a trade in China.

Forced abortion and sterilization is another issue of concern to us. As you are aware, Mr. Chairman, China has a one-child policy. The Chinese Government allows forced abortion and sterilization to take place as one of the methods of controlling the population growth in China.

Last, but not least, is the North Korean situation. There were a lot of questions that were asked of Secretary Kelly about North Korea. We are concerned about the refugees from North Korea residing in China. There are at least 100,000 to 150,000 such refugees in China at this moment, and the Chinese are not treating them well, and they are forcing them back, against their wishes. And, above all, the Chinese are not allowing the United Nations High Commission authorities to have access to these North Korean refugees in China.

Coming back to the main issue of political prisoners, there is one political prisoner I would like to single out. Her name is Rebiya Kadeer. She was arrested for meeting with—trying to meet with—congressional staffers. She was sentenced to 8 years in prison for providing secret information to foreigners. And when Human Rights Secretary Craner visited Xinjiang, the Muslim province of China, everyone expected that Rebiya Kadeer would be released at that time. But, to our dismay, not only was she not released, they arrested three of her children the day before Secretary Craner arrived, and detained them for a couple of hours and warned them not to talk to anyone about their mother's case.

The other case is Tibet. There is a case of a 6-year-old child who was selected by the Dalai Lama as the Panchen Lama, the second hierarchy in Tibetan Buddhism. This happened about 8 years ago. The Chinese immediately detained the 6-year-old child and his par-

ents, and, for the last 8 years, we don't know what has happened to that child and/or the parents.

These are two glaring examples of the contempt the Chinese have for human rights and also religious persecution and the denial of rights to minorities in China.

I will quickly move on to the U.S. policy aspect of the human rights situation in China. As Secretary Kelly mentioned, China is backsliding in terms of human rights. We also see that the United States is backsliding in terms of dealing with the human rights abuses in China. The United States failed to sponsor a resolution at the last United Nations Human Rights Convention. Whatever excuses the administration may give, they have given the green light to the Chinese to believe that they can get away with by abusing the rights of their civilians, and no one in the world, including the most powerful country in the world, the United States, is going to stand up to them. That's why we are urging the administration to sponsor a resolution at the upcoming 2004 Human Rights Convention.

Today is the second anniversary of the 9/11 tradegy. The Chinese have turned the tragedy into a weapon of human rights abuse. Since 9/11, they have created numerous anti-terrorism laws. And they are not only cracking down on the Muslim province of Xinjiang. They are now also expanding it to Tibetans and to others. For the first time ever, a Tibetan political prisoner was executed under those laws a couple of months ago. So what we see is the tragedy of 9/11 being used as a weapon of terror by the Chinese against their own citizens.

We also want the administration, especially President Bush, to take human rights to his heart when he meets with Chinese leaders this October, when he is going to have a meeting with the President of China at the APEC conference. We would urge him to specifically request that Rebiya Kadeer be released before that meeting or immediately after the meeting.

As a final note, Mr. Chairman, I would like to highlight the importance of congressional leadership on this issue. Given China's contempt for human rights, and given the Bush administration's unwillingness to deal with human rights in a meaningful way, the burden comes to you, as the main committee that deals with foreign policy. It's your responsibility to ensure that the administration does not undermine the need to secure human rights for Chinese civilians—I mean, to make sure that human rights is raised in a meaningful way with the Chinese. And also as a committee you can deal with Chinese directly and ensure that there is some progress made regarding human rights before any other developments take place, in terms of trade or anything else.

One of the downsides of what has happened to U.S.-China relations during the last couple of years was the granting to China of PNTR, of permanent normal trade relations. We, as an organization, did not take a position on that, but we are concerned that the annual debate surrounding human rights in China that took place during that time is not there anymore. So the Chinese know that there is no spotlight on their human rights abuses. That is also giving them an added incentive to abuse the rights of their own civilians.

So, in closing, Mr. Chairman, as a human rights organization, we are extremely pleased that you are holding this hearing today and keeping human rights as part of the discussion. And we expect that you will keep this human rights agenda as part of your deliberations with the administration and the Chinese.

Thank you very much.

[The prepared statement of Mr. Kumar follows:]

PREPARED STATEMENT OF T. KUMAR, ADVOCACY DIRECTOR FOR ASIA AND PACIFIC, AMNESTY INTERNATIONAL USA

Thank you Mr. Chairman, and distinguished members of this committee. Amnesty International is pleased to testify at this hearing. The human rights situation in China has been of consistent and grave concern to Amnesty International and, indeed, to Members of this Senate, for years. In 1996, Amnesty International launched an international campaign to increase awareness of China's horrible human rights record. Over the years we have released numerous reports to highlight the deteriorating conditions.

It would be impossible to cover the vast scope of human rights violations in China in my testimony, so I will summarize some of our major concerns. The scale of China's human rights violations is staggering. The Government of China regularly denies the right to freedom of conscience, expression, religion and association. China holds thousands of political prisoners, executes more people than the rest of the world combined, regularly practices torture resulting in numerous deaths, persecutes religious groups of all persuasions, has forced mothers to endure forced abortions and sterilizations, and perpetrates countless other human rights violations. Tibetans, Uighers, "unofficial" church members, Falun Gong practitioners, democracy activists, and political dissidents bear the brunt of abuses. Other groups targeted for repression include trade union organizers, advocates of reform, and people using the Internet to disseminate information deemed to be "politically sensitive." North Korean asylum seekers also have faced an intense crackdown in China leading to large-scale forcible repatriation to North Korea.

BUSH ADMINISTRATION'S HUMAN RIGHTS POLICY ON CHINA

The Administration's policy of over the last three years of appeasing China and compromising on fundamental human rights issues have emboldened Chinese authorities to continue committing human rights abuses. Secretary Powell recently stated that "U.S. relations with China are the best they have been since President Nixon's first visit in 1972." Given Secretary Powell's statement, one wonders whether the positive relationship with China comes at the expense of human rights. If the relationship is so positive, why has the Administration failed to secure the release of Rebiya Kadeer, who is imprisoned for attempting to meet U.S. Congressional staff? And why do so many continue to languish in prison for exercising their right to freedom of conscience, expression, religion and association?

The Administration's failure to sponsor a resolution at last year's United Nations annual Human Rights Commission meeting in Geneva and the Administration's failure to comprehensively integrate human rights in its dealing with the Chinese authorities are reprehensible and are marks of short-sighted policy. Amnesty International urges the Administration to declare its intention to sponsor a resolution at next year's UN Human Rights Commission meeting and to put real diplomatic muscle behind this effort. We also urge the Administration to incorporate meaningfully human rights requirements in all its dealing with the Chinese authorities.

Secretary Powell's up-beat assessment is in sham contrast with the Department of State's own admission of a failed U.S. human rights policy towards China. The failure of the Administration's human rights policy was displayed in public at the State Department's press briefing on July 2, 2003. Following is the statement:

Taken Questions
Office of the Spokesman
Washington, DC
July 2, 2003
Question Taken at July 2, 2003 Press Briefing

China: Human Rights Deterioration (Question Taken)

QUESTION. Can you elaborate on your comment that there has been a "deterioration in human rights" in China recently?

ANSWER. During much of 2002, we saw incremental, but unprecedented steps in the right direction on human rights, including the release of a number of prominent prisoners of conscience, the visit of representatives of the Dalai Lama to China for the first time in two decades, and numerous commitments undertaken by the Chinese government at the U.S.-China human rights dialogue last December aimed at systemic human rights reform. We were hopeful that these were signals of a new commitment by the Chinese government to cooperate with the United States on human rights issues.

We have been disappointed, therefore, to see negative developments in 2003. The commitments to make progress on human rights concerns made by China at the conclusion of the December human rights dialogue have not been met, and there have been a number of troubling incidents since the beginning of the year. For example:

- The execution of a Tibetan without due process and despite assurances that his case would receive a review by the Supreme People's Court;
- The arrests of a number of democracy activists;
- Harsh sentences handed down to Internet essayists and labor protesters;
- The forced repatriation of 18 Tibetans from Nepal in contravention of UN practices;
- The failure of PRC authorities to respect due process rights of those accused of political crimes; and
- Lack of access for us diplomats and family members to trials of those detained for political activities.

This backsliding on human rights is of great concern to the United States and the international community.

Our decision not to raise a China resolution at the Geneva Human Rights Commission this year was based on assurances by the Chinese government that human rights cooperation would get back on track. This was a good faith effort to try to find a new way forward on improving human rights in China.

We urge the Chinese government to take steps to ensure that its citizens are not persecuted for the peaceful expression of their views, and to release all prisoners of conscience.

[End]

Mr. Chairman, Amnesty International is keenly watching the Administration's steps with regard to China policy. And we sincerely hope for a China policy that will depart from the policy of the last three years, and one that will begin to secure real human rights gains in China.

I would now like to bring your attention to a number of cases that exemplify the vast array of human rights violations occurring in China today that need immediate attention.

THE IMPRISONMENT OF REBIYA KADEER

Mr. Chairman, Amnesty International would like to bring to your attention the case of Rebiya Kadeer. Ms. Kadeer, a successful businesswoman from the Xinjiang Uighur Autonomous Region (XAUR) in China, was arrested while trying to meet with members of the United States Congressional Research Service and Congressional staff. Following a trial held in secret, a Chinese court sentenced her to eight years' imprisonment for "providing secret information to foreigners". Her continued imprisonment is a slap in the face to those in the United States who would investigate human rights conditions in China.

Ms. Kadeer was widely expected to be released when Assistant Secretary of State for Human Rights Lorne Craner was given permission to visit the XUAR in December 2002. Not only was Ms. Kadeer not released, but her three children were taken into custody on the day before Secretary Craner's arrival. The children were released the following day with strict instructions not to meet with anyone about their mother's case. Ms. Kadeer's health is reportedly deteriorating, resulting in her inability to perform prison labour.

Amnesty International would urge you to take appropriate steps to secure her immediate release. Mr. Chairman, President Bush is planning to meet Chinese President Hu Jintao at the APEC Conference in Thailand in October. We urge you to contact President Bush to ask that he raiseRebiya Kadeer's case with the Chinese President during this conference.

WHERE IS THE CHILD?

Gendun Choekyi Nyima was only six years old when he was selected as the 11th Panchen Lama by the Dalai Lama. He has not been seen for eight years. It is believed that the Chinese authorities are holding him in a secret location. Amnesty International considers this child as a political prisoner.

On May 14, 1995 the Dalai Lama, Tibet's exiled leader, announced that Gendun Choekyi Nyima was the reincarnation of the 10th Panchen Lama. The Chinese authorities have disputed the Dalai Lama's authority to announce the discovery of the reincarnated Panchen Lama and rejected the Dalai Lama's choice and choose another six-year-old boy to be the reincarnate.

It is reported that the Chinese authorities took the Panchen Lama selected by the Dalai Lama to Beijing along with his parents. Eight years have passed and there is no information on this missing child. The Chinese authorities have refused to allow any independent observers to meet the boy or his parents. They also refused to share any information about his whereabouts.

A number of Buddhist monks who assisted the Dalai Lama in the search for the 11th Panchen Lama were also arrested and imprisoned. For example, Chadrel Rinpoche, the imprisoned abbot of Tashi Lhunpo Monastery, who is believed to have been released in January 2002 following the completion of his sentence, is now reported to be under house arrest.

There is no independent information on the status of Gendun Choekyi Nyima's health or living conditions. Chinese authorities assured a delegation of European Union Ambassadors visiting Tibet in 1998 that the "boy was in good health and living a normal life". The Ambassadors' request to visit the boy was refused on the grounds that the boy and his parents wished to lead a normal life, which was not compatible with receiving visits from foreigners.

Amnesty International is seriously concerned about the welfare of the child and that of his parents and urges the Chinese authorities to lift the restrictions and allow the boy and his parents to return to their village and live without restriction or harassment.

CRACKDOWN ON INTERNET USERS

In China, individuals can be sentenced to death for publishing information on the Internet that the government considers a "state secret". Scores of people have been imprisoned in China for using the Internet; of those arrested at least three have died as a result of torture by police. Those detained to date range from political activists and writers to Falun Gong practitioners and members of other religious groups banned by the authorities.

With the introduction of the Internet, news reaches China from a multiplicity of sources enabling people to form opinions, analyze and share information and to communicate in ways previously unknown in China. Lively on-line debate flourished in China. However, the potential of the Internet to spread new ideas has led the authorities to take measures to control its use.

The Chinese government has introduced numerous regulations, closed Internet cafes, and blocked e-mails, search engines, foreign news and politically sensitive websites. Recently, it has introduced filtering systems for web searches and has even created a special "Internet police" to enforce these restrictions. The Ministry of State Security has reportedly installed tracking devises on Internet service providers to monitor individual e-mail accounts and all Internet cafes are required to register and inform the police about their customers.

The Chinese government has also forced Internet companies to take on the responsibility of policing the web. A "Public Pledge on Self-Discipline" was introduced in August 2002 requiring Internet companies to agree not to allow the posting of "pernicious" information that may "jeopardize state security, disrupt social stability, contravene laws and spread superstition and obscenity". Yahoo also signed to this pledge to police Internet users. After a fire in an Internet cafe in Beijing last year, authorities closed thousands of Intemet cafes and demanded that those allowed to re-open do so only after installing filtering software to block web sites considered "politically sensitive" or "reactionary". The software prevents access to 500,000 various websites.

1989 TIANANMEN SQUARE PRISONERS

Fourteen years after the 1989 pro-democracy demonstrations in Tiananmen Square, we again call upon the Chinese authorities to account for all those killed and injured in the crackdown and to offer compensation to the families.

Those who lost their lives or were imprisoned in 1989 were calling for transparent and accountable government and an end to corruption—core building blocks for genuine stability and development. The new Chinese leadership has recently given prominence to these watchwords with its efforts to combat the spread of SARS.

Amnesty International reiterates its appeal to the Chinese authorities to release all prisoners still held in connection with the 1989 pro-democracy protests. AI has records of 82 people that it believes are still imprisoned following swift and unfair trials. Cases continue to come to light, indicating that the true figure is likely much higher.

FORCED ABORTION AND STERILIZATION

Birth control has been compulsory in China since 1979 and the official government line that "coercion" is not permitted is flatly contradicted by the facts. Birth control is enforced through quotas allocated to each work or social unit (such as schools factories or villages) with local officials directly responsible for monitoring and enforcement. At a minimum, couples who have "above quota" face punitive action, including heavy fines and loss of employment. ln reality, many local authorities resort to much more severe action, including forced abortions and forced sterilizations. Relatives of those accused of having too many children have been held as hostages until fines are paid or the pregnant woman agrees to have an abortion. "Above quota" newborn babies have reportedly been killed by doctors under pressure from officials and at least one doctor who issued false sterilization certificates was given the death penalty.

RAPE AND OTHER SEXUAL TORTURE

There have been many reports of the use of electric batons and sticks to rape or sexually violate and torture women in custody. One Tibetan nun described how on arrest in mid-1988, she and 11 other nuns were forced to stand in line as one by one they were stripped naked. Two policewomen with sticks then beat the naked women as male prisoners looked on. One of the nuns later reported: "I felt humiliated in the beginning, but later I forgot everything but the terrible pain." The policewomen then twice poked them with an electric baton and pushed it into their vaginas. By the time the nuns returned to their cells, they were "not aware of what was happening" around them.

TORTURE AND DEATHS IN CUSTODY

Zhou Jianxiong, a 30 year-old agricultural worker from Chunhua Township in Hunan province, died under torture on May 15, 1998. Detained on May 13, he was tortured by officials from the township birth control office to make him reveal the whereabouts of his wife, suspected of being pregnant without permission. Zhou was hung upside down, repeatedly whipped and beaten with wooden clubs, burned with cigarette butts, branded with soldering irons, and had his genitals ripped off.

This horrific case of abuse is not an isolated case. Every year many people die due to torture in China. Others survive the torture but continue to suffer the long-term effects of the physical and mental traumas they have endured.

Torture and ill treatment of detainees and prisoners is widespread and systemic in China. Such abuses have been reported in the full range of state institutions, from police stations, detention centers, prisons, to administrative "re-education through labor" camps, internal migrant "custody and repatriation centers", and enforced drug rehabilitation centers. Torture is also frequently reported as an integral part of the abuse of "non-custodial" control measures such as "residential supervision" and during "special isolation" of officials during investigations into allegations of corruption.

The common forms of torture reported by prisoners are the use of electric shock batons, particularly on sensitive areas such as mouth and genitals; being forced to stand in awkward positions for long periods and being suspended from the ceiling by their arms. Prisoners reported being tied in agonizing positions with ropes and also being forced into awkward positions with the use of ankle cuffs, handcuffs and thumb cuffs.

Kidney and liver ailments are common among prisoners as a result of kicking and beatings by prison guards aimed specifically at these sensitive organs. Many report being beaten with whatever implement a guard or interrogator can find at hand, such as a log, a gun butt or even in one case, a tire pump.

PRISON CONDITIONS

Prison conditions remain harsh and many prisoners are forced to work for long hours in unacceptable conditions. Prisoners receive inadequate food of a very poor standard. Prisons have poor sanitation and many prisoners suffer health problems as a result, particularly diarrhea and digestive problems.

Medical care for prisoners is reported to be insufficient and to be administered only at a late stage. One former prisoner's account indicates that there is a small clinic at Drapchi prison in Tibet with a resident nurse but no doctor. These facilities are not well equipped. Serious illness, such as tuberculosis, liver disease, and kidney problems, are dealt with in hospitals outside the prison, but many prisoners distrust the medical system. There is no preventive health care for prisoners. Some prisoners report that there are instances of tuberculosis in prison and that this particularly affects elderly or physically weak prisoners. It reportedly spreads easily as several prisoners are kept in one cell.

PSYCHIATRIC HOSPITALS

Many prisoners in China are confined to state run psychiatric hospitals for simple acts of expressing their thoughts on political issues. Take the example of veteran human rights activist and prisoner of conscience Wang Wanxing. He was forcibly removed from his home by eight public security officers and returned to Ankang psychiatric hospital in Beijing on November 23, 1999. There has been no further news of him.

Wang Wanxing was first detained in the hospital in June 1992 for unfurling a banner in Tiananmen Square to commemorate the anniversary of the pro-democracy protests of June 1989. On that occasion his wife was informed that he was suffering from "political monomania", which is not an internationally recognized medical term and would appear to imply political obsessiveness.

In August 1999, Wang Wanxing was released for a three-month trial period during which he was prohibited from contacting the media or pro-democracy activists. At the end of this trial period, on November 18, 1999, Wang Wanxing asked the authorities if he could hold a press conference to discuss his confinement. A week later, he was forcibly returned to Ankang psychiatric hospital, which is managed by the Beijing National Security Bureau. There is no evidence that Wang Wanxing has any form of mental illness and AI believes that he is being confined to a psychiatric institution in order to suppress his right to freedom of expression and belief.

THE DEATH PENALTY

The death penalty continues to be used extensively, arbitrarily, and frequently as a result of political interference. Its use increased dramatically after the launch of the "strike hard" campaign against crime in April 2001. Following the start of the campaign, a record number of people were sentenced to death and executed, reportedly 1,921 death sentences and 1,060 executions, many after apparently summary trials for crimes ranging from tax fraud and drug trafficking to pimping. Official reports on the campaign reveal a total absence of concern for international norms, which require that the most careful judicial procedures be followed in death penalty cases.

While the campaign was initially targeted at organized violent crime, national and provincial authorities have greatly expanded its scope, including the expansion of the campaign in the Xinjiang Uighur Autonomous Region (XUAR) to "deal a decisive blow to separatist forces, eliminating separatism and illegal religious activities". Until early 2003, the XUAR has been the only place in China where Amnesty International has monitored reports of public executions and the executions of political prisoners. In January 2003, Tibetan Lobsang Dhondup was executed following his conviction in a secret trial for involvement in a series of bombings in Sichuan province. There are serious concerns that Lobsang Dhondup's trial was unfair. He was held for several months incommunicado, he was not given full and adequate legal representation and his trial was held in secret. According to official sources, this was because the case involved "state secrets", but the authorities never explained how this related to charges against the defendant. This case could signal a move by the Chinese authorities to extend the use of the death penalty to those branded as political opponents, "separatists" or "terrorists" beyond the XUAR.

Despite official reports suggesting that the national "strike hard" campaign has been of limited success, its extension for a further year was announced on March 26, 2002. On August 30, 2002 it was reported that the "strike hard" campaign would be intensified to eliminate crime and "deepen and consolidate the results of the 'strike hard' campaign" in the run up to the 16th Chinese Communist Party Con-

gress to be held in November 2002 in Beijing. It was further reported that the Beijing authorities' have initiated a move towards holding local administrative organs responsible for the crime rate in their jurisdictions. Amnesty International is concerned that this could signal an increase in the number of cases of torture, unfair trials or summary trials as police and other authorities struggle to show results.

In 2002, as in previous years several reports have come to light of miscarriages of justice based on confessions extracted by torture. The use of torture to extract confessions from suspects is common and such incidences escalate during a "strike hard" campaign. In the majority of cases, the miscarriage of justice has only come to light after the real culprit was found.

MOBILE EXECUTION VANS

In an effort to improve cost-efficiency, Chinese provincial authorities are beginning to introduce so-called mobile execution vans. These are intended to replace the method of execution by firing squad in which prisoners are taken to an execution ground and made to kneel with hands cuffed before being shot in the head. Officials in Yunnan province explained that only four people are required to carry out the execution in the mobile vans; the executioner, one member of the court, one official from the procuratorate and one forensic doctor.

Eighteen mobile execution vans, converted 24-seater buses, are being distributed to all intermediate courts and one high court in Yunnan province. The windowless execution chamber at the back contains a metal bed on which the prisoner is strapped down. Once the doctor attaches the needle, a police officer presses a button and an automatic syringe inserts the lethal drug into the prisoner's vein. The execution can be watched on a video monitor next to the driver's seat and can be recorded if required.

The newspaper *Beijing Today* reported that use of the vans was approved by the legal authorities in Yunnan province on March 6th, 2003. Later that same day, two farmers, Liu Huafu and Zhou Chaojie, who had been convicted of drug trafficking, were executed by lethal injection in a mobile execution van. Zhao Shijie, president of the Yunnan Provincial High Court, was quoted as praising the new system: "The use of lethal injection shows that China's death penalty system is becoming more civilized and humane." However, members of China's legal community have voiced their concerns that it will only lead to an increase in the use of the death penalty.

HARVESTING ORGANS FROM EXECUTED PRISONERS

It has been known for some time that organs taken from executed prisoners are used for transplants in China. Amnesty International reported this practice in 1993 and called at that time for the Chinese government to ban the use of organs from executed prisoners without their free and informed consent. However, the use of organs from this source continues in China, reportedly on a widespread scale. In the absence of a system of voluntary death-related organ donation, the main source of organs in China is reported to be executed prisoners. The percentage of transplant kidneys estimated to be derived from executed prisoners has been put as high as 90%. Organs reported to be harvested from this source include corneas, kidneys and hearts. A number of reports indicate that it is also possible for foreigners to travel to China and buy transplants using organs of executed prisoners.

"RULE BY LAW" VERSUS RULE OF LAW AND HUMAN RIGHTS

In addition to human rights violations resulting from political repression, lack of respect for the law and arbitrariness in its enforcement are at the basis of gross human rights violations in China. Every year, countless numbers of people are detained without charge or trial. For those who are charged, sentences are frequently imposed after unfair trials. In many cases the verdicts passed at such trials include the death penalty.

Rule of law is still understood in China to mean "rule by law", reflecting a system in which the law is subordinate to political goals, including the defeat of perceived political threats. The judiciary lacks independence and the judicial process is subject to interference by political authorities. The vague and contradictory provisions of the law lead consistently to its arbitrary use and provide wide scope for abuse of power. The combined effects of repressive and vaguely worded criminal legislation, impunity for officials who abuse their power, and the use of a system of administrative detention mean that anyone can be detained at the whim of individuals in a position of power.

During the 1990s, the Chinese government took steps to address some of these issues, including, for example, its amending of the Criminal Procedure Law (CPL). However, the measures taken were far too limited to significantly change the law

enforcement and justice system. In practice, they have failed to protect individuals in China against arbitrary detention, unfair trials, torture and other human rights violations. Widespread illegal practices by law enforcers, such as the use of "torture to extract confessions", which has been explicitly prohibited by law since 1980, continue unabated, and in many cases remain unpunished.

ADMINISTRATIVE DETENTION—RE-EDUCATION THROUGH LABOUR

The system of "re-education through labour"—a form of administrative detention imposed as a punishment—is based on a Decision passed by the National People's Congress in 1957, which was later updated with new regulations. This legislation remains in force. According to a definition given by an official legal newspaper, "re-education through labour" is a punishment for actions, which fall "somewhere between crime and error".

"Re-education through labour" involves detention without charge or trial for up to three years, renewable by one year, in a forced labour camp. It is imposed by local government committees usually presided over by police officials. It applies to people who are regarded as troublemakers or those accused of committing minor offences which are not regarded as mounting to "crime" and which therefore are not prosecuted under the criminal justice system. Detainees liable to receive terms of "re-education through labour" have no right of access to a lawyer. Under the regulations on "re-education through labour", people who can be subjected to this punishment include those who are classified as being "counter-revolutionary", "anti-Party" or "anti-socialist", as well as people who "behave like hooligans", such as by engaging in fights, smuggling or prostitution, or by disturbing public order or "the order of production" in other ways.

According to official statistics, in 1996 there were 200,000 people in "re-education through labour" camps in China. By early 2001, the number had increased to 310,000, the latest official figure. The figure was thought to be substantially higher in 2002 as a result of the government's crackdown on the *Falun Gong* and the "strike hard" campaign against crime. Over the past two years, the use of this form of detention has increased particularly against Falun Gong practitioners and during the "strike hard" campaign against crime launched by the Chinese authorities in April 2001. Other victims include political dissidents, members of religious groups and a wide range of people accused of "disturbing public order", including prostitutes.

BRUTAL SUPPRESSION OF RELIGIOUS FREEDOM

Freedom of religion and belief is not tolerated by the Government of China and has led to an increase in crackdowns against those who choose to practice their religion freely. Ill-treatment and torture is used against Tibetan Buddhists, Uighur Muslims, Christians, Falun Gong practitioners and Catholics. Tens of thousands are detained for their religious activities and are languishing in prisons for an indefinite period of time without any charge or trial. Some are sentenced to death after unfair trials, where confessions were extracted under torture. Religious persecution is widespread in Tibet and the XUAR. Unauthorized religious groups of all persuasions can face heavy fines, harassment, and imprisonment. Many peaceful but unregistered religious gatherings have been raided by police and those attending have been beaten, threatened and detained.

CHRISTIANS

Members of evangelical Protestant groups and Roman Catholics who worship outside the official "patriotic" church are victims of the intense Chinese crackdown and are subjected to imprisonment, torture, harassment and fines. Five Chinese Protestants are currently undergoing a retrial on charges that carry the death penalty; in their original trial, the defendants appear to have been convicted based on evidence obtained through torture.

Gong Shengliang and four others were sentenced to death in December 2001 in connection with their membership of an unofficial Christian organization, reportedly after witnesses were tortured. Three women said they were tortured by police to make them confess to having had sexual relations with Gong Shengliang, whose convictions included rape. The allegations of torture included being shackled, whipped and kicked, and being beaten on the bare chest with electroshock batons. In October 2002 the sentences were commuted to long prison terms after a retrial was ordered because of "insufficient evidence and unclear facts". However, the verdicts still appeared to be partly based on confessions obtained through torture.

TIBET AUTONOMOUS REGION (TAR)

Despite the recent meetings between representatives of the Tibetan Government In Exile and Chinese officials in China and the release of seven Tibetan prisoners of conscience over the last two years, freedom of expression, religion, and association is still severely curtained by the Chinese government. The Chinese government continues to use the "Patriotic Re-Education Campaign" to target Tibetan Buddhist followers of the exiled Dalai Lama. Tibetans have been detained for having a picture of the Dalai Lama. The whereabouts of the Dalai Lama's choice of the 11th Panchen Lama, the second-ranking Tibetan religious leader, has remained unknown for the last eight years. The third-ranking Tibetan religious leader, the Karmapa Lama, fled to India citing lack of religious freedom in Tibet. Thousands of Tibetans flee to India every year to practice their religion freely. The activities of religious institutions continue to be severely restricted, many Buddhist monasteries and nunneries have been destroyed, and hundreds of monks and nuns have been expelled.

Many former Tibetan prisoners find life after prison too difficult and, rather than suffer harassment and potential retribution, they, along with lay people, leave Tibet for a life in exile in India. It is dangerous and difficult to leave Tibet; the majority of exiles walk across the Himalayas to Nepal—a journey that can take up to 30 days. Children often make the trip unaccompanied. In recent months, the Nepalese government has stopped Tibetans escaping to India and returned them to the Chinese government. The latest operations appears to confirm widely held suspicions that China has increased its pressure on other countries to return its nationals over recent months. Last year, three ethnic Uighur asylum seekers from China's Xinjiang Uighur Autonomous Region are believed to have been forcibly returned to China from Nepal even after they had been granted refugee status by the United Nations High Commissioner for Refugees (UNHCR).

In a recent incident, a group of 18 Tibetans were sent back to China at around 6 a.m. in a joint operation carried out by officials from Nepal and China. Eyewitnesses described them as being carried crying and screaming into vehicles before being dnven in the direction of the border. The operation was carried out in the face of widespread international concern expressed by the UNHCR, governments, and NGOs.

Until now, the Nepali authorities have allowed UNHCR to assess the claims of Tibetan asylum seekers and facilitate their resettlement or transit to third countries, usually India. UNHCR described the deportations as an "alarming departure" from that practice.

While it is not a party to the UN Convention relating to the Status of Refugees, Nepal is party to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment which prohibits the return of anyone to a country where they are at risk of torture, and the Convention on the Rights of the Child which obliges States to ensure that a child who is seeking refugee status receives appropriate protection.

In August 2003, Nepal officially adopted a new policy of protection for Tibetan refugees. Full implementation of this policy by the Nepalese government will ensure that Tibetans can safely enter Nepal en route to India.

It is extremely difficult to discover the fate of those returned to Tibet due to the tight controls on information imposed by the Chinese authorities. However, at the very least, Tibetan asylum seekers and refugees who are returned to China face detention for interrogation, where they are at serious risk of torture and ill-treatment.

XINJIANG UIGHUR AUTONOMOUS REGION (XUAR)

In the Xinjiang Uighur Autonomous region, the crackdown on ethnic Uighur Muslims has intensified.

Thousands of Uighurs have been detained under the new "Anti-Terrorism" law and political prisoners have been executed after unfair trials. Chinese authorities have arrested numerous Muslim preachers and religious leaders, destroyed several Mosques, and closed down many Muslim religious schools. Muslims working in government offices and other official institutions are prohibited from practicing their religion, or risk loosing their jobs. Chinese authorities in the XUAR practice various forms of torture, including the use of an unidentified injection which causes the victim to become mentally unbalanced and, for mate prisoners, the insertion of horse hair or wires into the penis.

Amnesty International remains concerned at China's apparent use of the attacks in the USA on September 11, 2001 to justify its ongoing repression of Uighur culture and religion and the curtailment of other fundamental freedoms in the XUAR. The authorities have imposed new restrictions on freedom of religion, closed down mosques that were deemed to have a "bad influence" on young people, and subjected

the Islamic clergy to intensive scrutiny and "political education". Official sources have made clear that the "struggle against separatism" is wide-ranging and encompasses repressing all potential dissent and opposition activities, including the peaceful expression of views via poems, songs, books, pamphlets, letters, or the Internet. Such policies have resulted in serious human rights violations, including the arrest and detention of thousands of Uighurs. Those detained for political offences in the XUAR are at serious risk of torture or ill treatment.

In December 2001, the Criminal Law was amended to strengthen provisions relating to "terrorism". Amnesty International is concerned that the amendments enlarge the scope of the application of the death penalty and may criminalize peaceful activities, freedom of expression and association. For example, the law makes it a criminal offence to be a member of a "terrorist organization" but as there is no definition for such an organization. The law could be interpreted as referring to political opposition or religious groups.

Amnesty International's concerns have been heightened following the announcement by the USA that it has placed the East Turkestan Islamic Movement (ETIM) on its list of so-called "terrorist" organizations. This listing, which was confirmed by the United Nations Security Council on September 11, 2002, appears to corroborate China's previous condemnation of the group. While Amnesty International is unable to confirm or deny reports that ETIM has been responsible for acts of violence, it is clear that the group is relatively small, little known and unrepresentative of many within China's Uighur community who have advocated respect for fundamental rights and freedoms or tried to exercise these rights peacefully. It is feared that China will interpret this move by the USA and the UN as an endorsement of its crackdown on all forms of dissent in the XUAR, resulting in further human rights violations against the mainly Muslim Uighur community.

Thousands of people remain imprisoned in the region in violation of their fundamental human rights. Amnesty International continues to call for the immediate and unconditional release of all prisoners of conscience in the XUAR, including Uighur businesswoman, Rebiya Kadeer, and the academic, Tohti Tunyaz (who writes under the pen-name Tohti Muzart). Rebiya Kadeer continues to serve an eight-year prison sentence after being found guilty in March 2000 of "providing secret information to foreigners". The information in question was nothing more than freely available public newspapers which she sent to her husband in the USA. She is being held in Baijiahu Prison in the regional capital, Urumqi, where her health has reportedly deteriorated over recent months.

Tohti Tunyaz was also detained on "state secrets" charges after being arrested while conducting academic research into Uighur history in the XUAR in February 1998. He was sentenced to 11 years in prison for "inciting separatism" and "illegally acquiring state secrets" in March 1999 and continues to serve his sentence in XUAR No.3 Prison in Urumqi. In May 2001, the UN Working Group on Arbitrary Detention concluded that his imprisonment was arbitrary and in violation of his right to freedom of thought, expression and opinion.

1997 CRACKDOWN IN GULIA (YINING)

Dozens of people were killed or injured when the Chinese security forces reportedly opened fire on ethnic Uighur demonstrators in Gulja (Yining) City, on February 5 and 6, 1997. The initially peaceful demonstration on February 5, was followed by several days of sporadic rioting in which both civilians and members of the security forces were killed or injured. Thousands of people were detained as the security forces went systematically through the streets, arresting suspected protestors and supporters, including their relatives. Many of those detained were reportedly tortured. Amnesty International calls for an independent inquiry into allegations of serious human rights violations that took place during and after the demonstration and requests further information about those who remain in prison.

INNER MONGOLIA

The situation in Inner Mongolia is quite similar to that of the XUAR and Tibet. A large influx of Han Chinese immigrants has made the Mongolian people a minority in their own territory. Their rights to the use of their own language and to the practice of their own religion—most are Buddhists who look to the leadership of the Dalai Lama, as well as to their own "living Buddhas"—have been seriously abridged.

Since 1995-96, the Beijing government has taken severe repressive measures against any manifestations of Mongolian nationalism, including the selling and distribution of books in the Mongolian language and script. For example, the Mongolian bookstore operated by Hada and Xinna, his wife, has been closed; Hada is still

in prison and Xinna has been subjected to intrusive questioning and police harassment. Although Tegexi, another prominent Inner Mongolian prisoner, has been released, he remains under restriction and his status is unclear.

Despite the new leadership in Beijing, so far there has been no sign that these policies will change. Amnesty International calls for the immediate and unconditional release of Tegexi and Hada, and also calls on the Chinese government to accord the ethnic Mongols in the Inner Mongolian region their full rights to social, cultural, and linguistic development.

In addition to these instances, the treatment of North Korean refugees in this region has become increasingly harsh, with detentions and long-term imprisonment more common in the past two years.

THE CRACKDOWN ON THE FALUN GONG SPIRITUAL MOVEMENT

The Chinese authorities have made it clear that one of the main targets of the "strike hard" campaign is the Falun Gong spiritual movement which has been banned in China since July 1999 along with other so-called "heretical organizations". There are serious concerns that the Chinese authorities have sanctioned the use of violence as one of the means to eradicate the group.

Falun Gong practitioners have suffered severe repression, with tens of thousands of practitioners arbitrarily detained since Chinese authorities banned this group in July 1999 and sent the vast majority of them to labor through re-education camps. Alleged Falun Gong leaders and organizers have been sentenced to lengthy prison terms or sent to psychiatric hospitals. Over 500 Falun Gong practitioners have reportedly died in custody.

Tens of thousands of Falun Gong practitioners continue to be detained in China where they are at serious risk of torture or ill-treatment, particularly if they refuse to renounce their spiritual beliefs. The vast majority of them are believed to be held in labor through re-education centers, a form of administrative detention imposed without charge or trial. Amnesty International considers all those detained in violation of their rights to freedom of belief, expression and association, and who have not used or advocated violence, to be prisoners of conscience.

One example is Yoko Kaneko (also known as Luo Rong), a Chinese citizen with permanent residency in Japan, who was detained while handing out Falun Gong leaflets to passersby in Beijing on May 24, 2002. One month later, on June 24, 2002, the Beijing People's Government Committee for the Administration of Re-education through Labor concluded that Luo Rong (Yoko Kaneko) had "resisted the enforcement of national laws" and "disrupted the order of social administration" by distributing Falun Gong "propaganda material". She was assigned to one-and-a-half years' re-education through labor. Amnesty International considers her to be a prisoner of conscience and is calling for her immediate and unconditional release.

Amnesty International continues to receive regular reports of Falun Gong members being tortured or ill-treated in custody. They include Zhao Ming, a Falun Gong practitioner from Changchun City, Jilin Province, who stated after his release that he had been subjected to beatings with fists and electric shock batons, sleep deprivation, force-feeding and other forms of torture during his detention in Tuanhe Re-education through Labor Camp in Beijing between June 2000 and March 2002. According to Falun Gong sources, over 500 Falun Gong practitioners have died in custody (or shortly after their release), most as a result of torture.

WORKERS AND LABOR RIGHTS ACTIVISTS

Over the last year, the number of labor disputes and protests involving large numbers of workers has risen dramatically in China. Workers have been protesting about conditions of employment, low or missing wages, corrupt management, illegal working conditions, mass lay-offs, industrial accidents and deaths, poor safety, restrictive working practices, and physical ill-treatment from factory bosses. Such protests are generally deemed illegal, as are independent trade unions.

Many protests have been met with excessive use of force by the police and participants have been detained, harassed or imprisoned for taking part in such protests or publicizing them. Journalists and lawyers have also been targeted by the authorities and have faced intimidation or arrest for speaking out in defense of protesters.

Yao Fuxin, Xiao Yunliang, Pang Qingxiang and Wang Zhaoming were detained after taking part in massive demonstrations by laid off workers in Liaoning City, Liaoning Province in spring 2002. The protests were against corruption, insufficient severance pay and unemployment. The four remain in detention and are reported to have been charged with organizing "illegal demonstrations". Yao Fuxin is believed to be seriously ill, possibly due to ill treatment. Several other demonstrators were reportedly detained and beaten. Gu Baoshu, who was detained and released

after several hours of interrogation, was reportedly covered in bruises and suffering from severe chest pain and blood clots in his eyes when he was released. He has subsequently been threatened and harassed by the police, following his demands for those responsible for his beatings to be investigated.

Many labor activists are also imprisoned on charges of "subversion", for revealing "state secrets" (which may simply refer to reporting labor unrest), or for organizing an "illegal demonstration". They include Zhang Shanguang who is currently serving a ten year sentence for "illegally supplying intelligence to hostile organizations and people abroad". One of the charges against him was based on an interview he gave to a foreign radio station during which he spoke, among other things, about peasant demonstrations in Hunan Province. He has reportedly been tortured in prison and is believed to be seriously ill.

In October 2001, extensive amendments to the Trade Union law of the People's Republic of China were ratified by the National People's Congress. While the amendments brought some improvements, the revised law still severely restricts workers' rights to freedom of association and expression. Some revisions also represent a step backwards in the promotion of workers rights. For instance, the revisions reinforce the existing monopoly of the ACFTU and affirm the subordination of Chinese Trade Unions to the Chinese Communist Party (CCP). There continues to be no explicit reference to the right of workers to "strike" (ba gong) and independent trade unions are still not permitted.

ABUSES AGAINST HIV/AIDS PATIENTS

In June 2003, around 600 police and other unidentified men carried out a violent raid of Xiongqiao village in Shangcai County, Henan Province. The raid is believed to have been provoked by an earlier incident in which up to 100 HIV-positive villagers visited the provincial capital Zhengzhou to protest the lack of adequate health care in Xiongqiao. Sixteen unarmed people thought to be HIV-positive and possibly suffering from AIDS were detained. There are unconfirmed reports that at least some of them were beaten in police custody. One of those released has claimed that the detainees were beaten to force them to confess to crimes of "robbery" and "attacking government offices."

An estimated one third to one half of the 500-600 residents of Xiongqiao are reported to be HIV positive after becoming infected through the sale of their blood to government-sanctioned blood-collecting stations in the 1990s. The blood-collection schemes became a useful source of income for villagers, but were often poorly managed and unsafe. It is estimated that up to one million people may have been infected with the HIV virus in this way in Henan and other provinces.

The cost of medical treatment in China has increased sharply over recent years due to economic restructuring. Few villagers in Henan and other infected provinces have been given antiretroviral drugs or other specialist care.

The extent of the spread of HIV/AIDS in Henan became better known last year after the most prominent HIV/AIDS activist in China, Dr Wan Yanhai, head of the Beijing-based Aizhi Institute, published on his website lists of people who died in Henan province of HIV/AIDS related illnesses. He was arrested in August 2002 on suspicion of "leaking state secrets," but released around one month later after widespread international protests at his detention.

In July, the Aizhi Institute reportedly wrote to the Health Minister of the Chinese government, calling for greater transparency and urging the government to release statistics detailing the number of people infected with the HIV virus through use of government-sanctioned blood collection centers and the provinces in which they were infected.

According to Dr Wan Yanhai, the deputy director of the Henan Center for Disease Control, Ma Shiwen, was arrested in August for allegedly leaking documents on the Henan epidemic to the Aizhi Institute. Amnesty International is particularly concerned that Ma Shiwen appears to have been detained under vaguely-worded state secrets legislation, which continues to be used widely in China to detain individuals in violation of their fundamental human right to freedom of expression.

HONG KONG SPECIAL ADMINISTRATIVE REGION

Amnesty International welcomes the withdrawal of Article 23 legislation proposed by the HK SAR. This legislation would have allowed Hong Kong to enact its own laws to prohibit acts of treason, secession, sedition and subversion. It was feared that the proposals could be used to suppress the rights to freedom of expression and association as well as the legitimate activities of nongovernmental organizations and the media.

Police reportedly used excessive force in response to protests on economic issues and the right of abode. Three prominent activists were arrested and charged with organizing an unlawful assembly under a revised Public Order Ordinance that had never before been invoked. In November, two other well-known activists were arrested and charged with the same offence after holding a demonstration in May in protest against the arrests of the three activists.

Members of the Falun Gong, a registered society in Hong Kong, were arrested at peaceful demonstrations and alleged that they were victims of police violence. On August, 16, 2002 Falun Gong members were convicted of obstruction during a demonstration in March. There were claims that the trial was politically motivated.

MACAO SPECIAL ADMINISTRATIVE REGION

There were continuing reports of beatings and torture in police custody at least one detainee died in suspicious circumstances. Police reportedly used excessive force during labor protests. Investigations into complaints about police violence continued to be slow and unsatisfactory. Members of the Falun Gong, which was neither registered nor banned in Macao, were reportedly "harassed by police and foreign practitioners were denied access to Macao."

NORTH KOREAN ASYLUM SEEKERS IN CHINA

In the face of serious food shortages and political repression, thousands of North Koreans have fled across the border to China where many live in fear of arrest and possible repatriation. The Chinese authorities claim that all North Koreans who illegally come to China are economic migrants, and have consistently denied them access to any refugee determination procedure, in violation of China's obligations under the 1951 Refugee Convention and despite evidence that many among them have genuine claims to asylum.

Their desperate plight has been brought into sharp focus over recent months by a series of diplomatic incidents in which over 100 North Koreans have entered foreign diplomatic facilities in several Chinese cities in an attempt to claim asylum. China has responded to these incidents by stepping up its crackdown on North Koreans, particularly in the provinces of Liaoning and Jilin which border North Korea. Hundreds, possibly thousands, of North Koreans have been detained and forcibly returned across the border where they meet an uncertain fate. Amnesty International fears that they could be subjected to serious human rights violations, including arbitrary detention, torture or even summary execution.

The renewed crackdown in northeast China has also extended to people suspected of helping North Koreans, including members of foreign aid and religious organizations and ethnic Korean Chinese nationals living in the border area, many of whom have been detained for interrogation. In December 2001, a South Korean pastor, Chun Ki-won and his assistant, Jin Qilong, an ethnic Korean Chinese national, were arrested in Hulunbeier City in China's Inner Mongolia Autonomous Region while leading a group of 13 North Koreans through northeast China towards the neighbouring state of Mongolia. On March 3, 2002, Chun Ki-won and Jin Qilong were charged with "organizing other people to illegally cross the national border". They were tried by the Hulunbeier Municipal People's Court in Inner Mongolia in July, found guilty and sentenced to pay fines of 50,000 and 20,000 Yuan respectively (US$6,000/US$2,400). They were subsequently released, and Chun Ki-won was deported to South Korea on August 22, 2002.

The 13 North Koreans were detained in Manzhouli Prison in Inner Mongolia. Three of them, including a newly-born baby, were reportedly returned to North Korea in late January or early February 2002, but there were no further details about their status or whereabouts. The others, including four children, were reported to have been moved from Manzhouli Prison in July 2002, but their current whereabouts remains unknown.

The Chinese authorities' have often failed to distinguish between peaceful acts of protest and "terrorism". For example, in its report of January 21, 2002 (mentioned above), the Chinese authorities accused ETIM (otherwise known as the "East Turkestan Islamic Party of Allah") of being behind the "Yining Incident" of February 5-8, 1997, which was described as a "serious riot during which the terrorists shouted slogans calling for the establishment of an Islamic Kingdom." However, eyewitness accounts indicated that this unrest started with a peaceful demonstration by Uighurs which was brutally suppressed by the security forces, leading to sporadic rioting and violence over two days.

U.S. GOVERNMENT RESPONSE

Mr. Chairman, as my testimony has demonstrated, Amnesty International sees no signs of improvement with regards to human rights in China. Chinese authorities continue to detain political prisoners without charge, and to torture and ill-treat prisoners in custody, often resulting in the prisoners' deaths. Thousands remain incarcerated simply for exercising their right to freedom of conscience, expression, religion and association.

It is crucial that the United States continue to play a leadership role in demanding fundamental improvements in the Chinese government's respect for human rights. We should not allow the Chinese government to take advantage of our wish that they cooperate in the war on terrorism. Such requests must not result in giving Beijing a blank check to crackdown on human rights at home. Peaceful political dissent is not terrorism.

We appreciate the steps taken by the Assistant Secretary of State for Human Rights Lorne Craner to secure fundamental human rights to Chinese civilians. His efforts have to be backed up by President Bush.

The President and other senior Administration officials must articulate a strong, clear, and consistent human rights policy on China. The international community is unlikely to take firm action when the world's leader is engaged in a policy of appeasement which gives priority to trade over human rights. The Chinese Government's policy of dealing with dissent has not changed over the years. It is the U.S. and international community's response that has changed.

U.S. CONGRESS

Mr. Chairman, historically the United States Congress has played a crucial role in shaping U.S. human rights policy towards China. Through persuasion and legislation, Congress members fought to keep respect for human rights at the forefront of U.S.-China policy. Congressional oversight countered Administration tendencies to overlook abuses and tendencies by the Administration to buy into trade at any cost.

The spotlight that Congress provided helped lessen the abuses from China's repressive regime, and led to countless releases of prisoners of conscience. Until recently, Congress debated the human rights situation in China on an annual basis during the debates about the re-granting of Most Favored Nation (MFN) status. Such debates helped keep the excesses of abuses in check. The debate was elevated in importance because of the financial concerns involved.

Since Congress granted Permanent Normal Trade Relations (PNTR), however, the attention to human rights in China has all but withered. While some individual Members of Congress have gallantly confronted the abuses on behalf of the citizens in China, the lack of an annual debate has muted Congress' voice.

Mr. Chairman, abandoning one-fifth of the world's population is not a smart U.S. policy. I urge that the Congress resume reinvigorated debate on human rights in China and that the Congress re-think engagement without results.

RECOMMENDATIONS

President Bush should raise Rebiya Kadeer's impnsonment with China's President Hu Jintao when he meets with him at the APEC Conference in Thailand in October and he should abandon the current quiet U.S. human rights policy towards China, which fails the Chinese people now, and in the long-term fails the U.S.

The Administration should:

- Develop a comprehensive strategy to address human rights issues in China.
- Vigorously seek the release of prisoners of conscience held in China for peacefully expressing their beliefs, particularly Tibetan POCs, Phuntsog Nyidron, Ngawang Phulchung, as well as all prisoners still held in connection with the 1989 pro-democracy protests.
- Announce its intention to sponsor a resolution condemning China's human rights practices at the 2004 United Nations Human Rights Commission in Geneva, and begin now to seek cosponsorship from other countries.
- Take advantage of the 2008 Olympics in Beijing to demand concrete benchmarks from the Chinese authorities for human rights progress in China.
- Seek information on the whereabouts and secure the freedom of movement of Gedun Choekyi Nyima, the Dalai Lama's choice as the 11th Panchen Lama.
- Demand the revocations of all forms of administrative detention that are imposed without charge, trial, or judicial review.

Thank you for inviting Amnesty International for this important hearing.

The CHAIRMAN. Well, thank you very much, Mr. Kumar. As you noted, many Senators do take these human rights issues very seriously.

Mr. KUMAR. Thank you.

The CHAIRMAN. I would just say, parenthetically, before moving on to the next witness, that the committee is preparing a sense of the Senate resolution to the Chinese with regard to Miss Kadeer, encouraging her release, encouraging President Bush to raise the issue at APEC if she has not been released before that point. So we appreciate your highlighting the circumstances which would undergird our resolution.

Mr. KUMAR. Thank you very much.

The CHAIRMAN. It's a pleasure to have Secretary Harold Brown here. He has testified before many, many committees over the years and has offered distinguished service to our country, and it's a personal privilege to have you here today, sir. And will you please proceed?

STATEMENT OF HON. HAROLD BROWN, COUNSELOR AND MEMBER, BOARD OF TRUSTEES, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC

Mr. BROWN. Thank you very much, Mr. Chairman, for those kind words. I reciprocate your high regard.

Mr. Chairman, members of the committee, I'm grateful for the chance to appear today to talk to you about Chinese military capability.

China clearly is a rising power. And in the past, conflicts have often occurred between such a power and the existing leading power. In fact, as was pointed out 2,500 years ago, in the competition for the power nations go to war for reasons of honor, fear, or interest. And the fear, of course, is often engendered by the military capability of other powers. Thus one element in the events and perceptions that lead to such conflict is the growth of the military capability of the rising power.

With that in mind, the Council on Foreign Relations sponsored an independent task force that looked at Chinese military power and how it may evolve over coming decades. I chaired it, and retired Admiral Joe Prueher, who had been CINCPAC and also had been Ambassador to China, was Vice Chairman. We looked at Chinese military power, but also looked at the political, economic, and technological factors that affect that power.

You have a copy of the report. I won't try to summarize it. The executive summary is 31 pages long. But I'll make a few remarks about where I think the group came out.

The first conclusion is that China is modernizing its military capabilities—unevenly, but across the board. And it's doing so for several purposes. One is maintaining domestic stability and ensuring regime security. The second is to develop limited power projection capabilities for conflict scenarios along China's periphery, especially beyond the Asian land mass and, in particular, toward Taiwan, which the PRC, of course, regards as a matter of Chinese sovereignty. And, in addition, China sees, as a rising power, that an

improved military capability is a natural concomitant of and increases its international prestige and influence. That's the honor segment.

China's Armed Forces are at least two decades behind the United States in military capability. That's a key conclusion of our examination. And by that measure, the U.S. outclasses the PRC, not only globally, but in East Asia. And given the important condition of continued allocation of resources by the United States, the U.S. will continue to outclass the PRC in military capability for decades to come. However, if you look at present trends—that is, for example, if you assume Japan continues to forego a role as a major regional military power—China will, during that period, become the predominant military power among the nations of East Asia.

In addition, although the United States will outclass Chinese military capability, we could get some nasty surprises, especially if we don't pay enough attention to PLA capabilities and the PRC strategy or if we don't track their development carefully. As has been suggested earlier, the Taiwan Strait is the area of greatest military concern in the bilateral balance. During the next decade, and during the past decade, the main focus of Chinese military capability has been and is focused on the possibility that the political situation develops so that the PRC decides to use military force to intimidate or attack Taiwan in order to obtain a favorable political outcome or political control. The Chinese are aiming at having the military capabilities and tactics that will enable them to achieve that result.

In order to do so, China would have to prevent effective U.S. intervention, either by acting very quickly or by using its anti-ship missiles and submarines to slow and to interfere with operation of U.S. naval forces. I have no doubt as to the military outcome of such a conflict. It would be victory for the United States. But it would be a disaster for everybody concerned, and there would be serious risks and costs to the U.S. military. Moreover, what we might regard as a military victory, they might well regard as a political victory, depending on the effect on the political outcome in Taiwan.

The Council on Foreign Relations task force, and I myself, feel that Taiwan is essentially a political situation and needs to be met politically. The Taiwanese, of course, depend on a U.S. commitment to prevent military disaster to them. And that they regard it as an issue of political commitment rather than a matter of defending themselves militarily is shown, I think, by the following. The Taiwan Government pushes the United States very, very hard to make a commitment to sell them advanced military equipment. But once they have the commitment, they're not very eager to actually make the purchases.

Let me now turn to some more specific PLA programs. The most successful ones are in the area of ballistic missiles and nuclear weapons. For example, the short-range ballistic missile that's been mentioned before constitutes a major part of the PRC's threat to Taiwan. Their nuclear-armed long-range missiles are rather few in number—maybe a couple of dozen ICBMs, a ballistic missile submarine that seldom goes to sea—and that's their nuclear deterrent vis-à-vis the United States. They appear to have been satisfied

with a minimal deterrent of this sort. I believe, though, that they could and would buildup their long-range ballistic-missile force to whatever level is necessary to preserve that deterrent in the face of a future U.S. ballistic-missile system.

They've also been improving their ground-force equipment. But their personnel are not really up to modern standards. The bulk of their enlisted force is poorly educated and poorly trained conscripts.

To take another example, they can't themselves indigenously produce advanced aircraft and maritime forces. That's why they have to buy much of their equipment from foreign suppliers. They have little or no joint-force training. Their pilots fly few hours a month, and even fewer over water. Their organization is in the obsolete Soviet-style military-region style, rather than in unified commands. And the Chinese industrial production base for conventional arms, unlike their civilian manufacturing industry that's so successful in international and even in high-tech trade, on the military-production side is still part of the state-owned enterprise system that drags down Chinese economic growth. So it's not efficient, and its products aren't of the best.

As I said at the beginning, China is pursuing a deliberate and focused course of military modernization aimed at shifting from a military with a continental orientation—large land forces, in-depth defense—to a military with combined continental and maritime orientation—smaller, more mobile, more technologically advanced. So we have to watch for development of key areas in order to help gauge the pace at which that modernization is proceeding.

We identified five categories: command control communications, computers, intelligence, surveillance, and reconnaissance—that is, C4ISR, as it's called; joint operations; precision strikes; combat support; and training. And we have some indicators that would represent major shifts from the current priorities: a crash program to build more amphibious warfare ships, expanded acquisition of more advanced fighter aircraft by the PLA's naval air force, or a dramatic increase in the pace of submarine force modernization. All those would be indicators of a shift in Chinese military strategy.

And we have some recommendations, which I support. One is a broader military-to-military dialog, but one designed to achieve specific goals. Greater transparency in the PLA budget process and a strategic dialog over missile defense and nuclear modernization would be two of them. And we also think that there should be so-called track two—that is, private but with government knowledge—talks on crisis-management issues, recognizing that in the past such events as the accidental bombing of the Chinese Embassy in Belgrade and the collision of U.S. and PRC military aircraft near Hainan Island, in 2001, weren't handled very well, especially on the Chinese side. In that manner, we should seek improvement in how such political and military crises are addressed.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF HON. HAROLD BROWN, COUNSELOR AND MEMBER, BOARD OF TRUSTEES, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mister Chairman and members of the Committee, I am grateful for the opportunity to appear before you today to talk about Chinese military capability. China

is clearly a rising power. In the past, conflicts have often occurred between such a power and the existing leading power. One element in the events and perceptions that have led to such conflicts is the growth of the military capability of the rising power. With that in mind, the Council on Foreign Relations sponsored an independent Task Force that looked at Chinese military power and how it may evolve over coming decades. I chaired that Task Force and Admiral Joseph Prueher, formerly Commander in Chief of Pacific Forces was Vice Chairman; the group met half a dozen times over a period of a year and there were meetings of sub groups that dealt respectively with political, economic and technological factors. You have a copy of the report, but I will take a few minutes to summarize where I think the group came out.

1. China is modernizing its military capabilities, unevenly but across the board. The capabilities sought have several purposes. The first is to help maintain domestic stability and ensure regime security. The second is to develop limited power projection capabilities for possible conflict scenarios along China's periphery, especially beyond the Asian land mass, and in particular towards Taiwan, which the PRC regards as a matter of Chinese sovereignty. Elsewhere along its periphery it is intended to defend what it sees as its territorial interest. And as a rising power, China sees an improved military capability as a natural concomitant, increasing its international prestige and influence.

2. The PLA (which is China's name for all of its armed forces) is at least two decades behind the US in military capability, by which measure the US outclasses the PRC not only globally but in East Asia. Moreover, given continued allocation of resources, the US will continue to do so for decades to come. On present trends, however (for example, assuming Japan continues to forego a role as a major regional military power) China will during that period become the predominant military power among the nations of East Asia.

3. That said, we could get some nasty surprises, especially if we don't pay sufficient attention to PLA capabilities and PRC strategy, or if we don't track their development carefully.

The Taiwan Strait is the area of greatest military concern in the bilateral balance. During the next decade, a main focus of Chinese military development is, if the political situation develops so that the PRC decides to use military force to intimidate or attack Taiwan so as to obtain a favorable political settlement or political control, to have the military capabilities and proper tactics to achieve that result. To do so China would have to prevent effective US intervention, either by acting very quickly (a challenge to US intelligence capabilities) or by using its anti-ship missiles and submarines to slow and interfere with the operation of a US naval task force. There is no doubt in my mind as to the military outcome of such a conflict—victory for the US. But there could be serious risks and costs to the US military and what we would regard as a military defeat for the Chinese they might well regard as a political victory, depending on the effect on the political situation in Taiwan.

4. If I could now turn to some more specific PLA programs, I would note that their most successful ones are in the area of ballistic missiles and nuclear weapons. Short-range ballistic missiles constitute a significant part of the PRC's threat to Taiwan. Nuclear-armed long-range missiles, rather few in number—a couple of dozen ICBMs and a ballistic missile submarine which seldom goes to sea—constitute their nuclear deterrent visà-vis the US. They appear to have been satisfied with a minimal deterrent of this sort. My own judgment is, however, that they could and will build up their long-range ballistic missile force to whatever level is necessary to preserve that deterrent in the face of a future US ballistic missile defense system.

The PLA also has been improving its ground-force equipment. But, as PRC military commentators themselves observe, the bulk of its enlisted force consists of poorly educated and trained conscripts. Moreover, indigenous production capability for advanced aircraft and maritime forces is unsatisfactory, which is why they have to purchase much of such equipment from foreign suppliers. There is little or no joint-force training; their pilots fly few hours per month and even fewer over water. PLA organization is by military region rather than in unified commands. Their C4ISR (Command Control Communications, Intelligence, Surveillance and Reconnaissance) capabilities are still relatively primitive. And the Chinese industrial production base for conventional arms, unlike their civilian manufacturing industry that is so successful in international—including high tech—trade, remains part of the state-owned enterprise system that drags down Chinese economic growth; correspondingly, it is inefficient and its products not of the best.

5. One way to look at the PLA is to compare resources devoted to it with those devoted elsewhere. By that measure, China is in a class with the UK, France, Japan and Russia. It is behind them technologically, but fields a larger force. It is probably

less able to project power outside of its contiguous landmass, but could be formidable on the Asian landmass.

6. China, as I said at the beginning, is pursuing a deliberate and focused course of military modernization, aimed at shifting from a military with a continental orientation requiring large land forces for in-depth defense to a military with a combined continental and maritime orientation that requires a smaller, more mobile and more technologically advanced "active peripheral defense" capability. It is therefore important for the US to watch for development of key areas to be used to help gauge the pace at which that modernization is proceeding. These fall into five categories: C4ISR; joint operations; precision strikes; combat support; and training. And there are some indicators that would represent major shifts away from the current priorities, greatly changing the nature of the Chinese modernization program, such as crash programs to build more amphibious warfare ships, expanded acquisition of more advanced fighter aircraft by the PLA naval air force or a dramatic increase in the pace of submarine force modernization.

Finally, the Task Force made a few other recommendations. One is that there should be a broader military-to-military dialogue. But it should be designed to achieve specific goals, including greater transparency in the PLA budget process and a strategic dialogue over missile defense and nuclear modernization. There should also be so-called Track Two talks on crisis management issues. In the past such events as the accidental bombing of the Chinese embassy in Belgrade and the collision of US and PRC military aircraft near Hainin Island in 2001 were not handled very well, especially on the Chinese side. We should seek improvement in the manner in which such political-military crises are addressed.

Thank you Mister Chairman.

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

Let me say each one of you, in your testimony, has offered remarkable information for the committee, but, likewise, for the American people, and we appreciate your preparation.

Let me just say, as I've already mentioned to you, Mr. Kumar, that the committee takes seriously the human rights issues, and I have indicated at least one way in which we'll be progressing in a fairly conspicuous resolution.

I would say to you, Dr. Lardy, that there are at least two pieces of legislation that I'm aware of in the Senate, introduced by people outside of our committee, but obviously of deep interest to us, affecting the currency situation in China. The net of them is to express alarm, with regard to the fact that our Secretary of the Treasury was not given what he wanted and is threatening retaliation of various sorts. So this debate, I think, as reflected in many of our committee members' anxiety about ongoing constituent meetings in our States, has become a very hot issue.

Now, it may be, as you have pointed out, that this is too easy or fast a fix, or, even if we got our wish, that the effects might not be very good, either for us or for the Chinese. Yet it reflects a profound feeling of wanting some leadership, at least in the Congress and the administration and academic America, as to how we proceed. And that question kept arising with Secretary Kelly earlier on.

In other words, there is a perception in my State, as in most, that a large number of jobs that were performed by people in Indiana a short time ago are now being performed by people in China.

Now, some academics are advising us to get used to this fact, because manufacturing is a part of the American economy. It was 16 percent last year; it's still 16 percent this year. Productivity increases of 5 and 6 percent are dramatic, but they imply that you need fewer people doing that manufacturing work. So, as a result, we have been advised to get used to the fact that there are going

to be fewer and fewer manufacturing jobs. Now, that might be the way history finally settles it, but people are not yet used to this fact at all.

Now, in fact, in the past, the usual problem was with NAFTA and the thought that jobs were proceeding to Mexico. Mexican friends come to us and point out that jobs have proceeded right on through Mexico to China. And as you mentioned, maybe this is a problem of Asian nations, which also are lamenting the fact that the Chinese, because they have better capitalization, do it better. Huge amounts of capital have been coming in from many, many countries. We saw today, for example, that in certain standards of electronics or communication, the Chinese may decide to set their own standards, not to utilize ours. China may try to pay royalties or try to hue to the mark of what was an international situation at that point. So the issue will not go away.

Now, the question that you have raised is an important one, and that is that—and I think this is news for most of us on the committee—the imports of China are very, very substantial. If you subtract those from the problems that we have, the Chinese still have a balance, but it's not a big one. On the other hand, critics might say, "Well, the Chinese are importing from other Asian nations. These nations are poor, and they have low wage rates, too." We deserve the same conditions with regard to workers that we would charge that the Chinese have, which would not be very good, at least in our viewpoint. They are getting all this cheap input. Even though they're paying for it with money, they're selling it to the rich nations—namely, to us—and so the flow still is not very salutary.

Let me just ask you, as an economist, in historical perspective, sometimes these things never go in one direction for a long time. You've pointed out in your testimony a potential banking bubble, or at least crisis, of loans that might be repaid. Some have argued that this is one reason that our Secretary of the Treasury was initially rebuffed, that the Chinese made too abrupt a change here. It could create havoc with regard to their banking system. It could lead to all kinds of financial difficulties, with repercussions that are profound, beyond those that we know. Can you give us any roadmap that may offer comfort to people in the United States, who are deeply concerned about the loss of jobs and what they fear is an unfair playing field? What should our Secretary of the Treasury's policy be? What should be the policy of the Secretary of State or anybody else who is dealing with the Chinese on these economic issues presently?

Dr. LARDY. Well, as I suggested, I do think the Secretary of the Treasury should be pushing China to revalue. I think there's a good chance that, over time, they will increasingly see that this is even in their own interest.

I didn't have a chance to say, in my opening remarks, but I would say now, I do believe there's a fairly widespread view that if the Chinese were to move on their currency, we would see other Asian countries move, as well. Korea, Taiwan, maybe even Japan would move significantly. They are very reluctant, given China's rise as a major manufacturing power, to move in advance of China's move.

I mentioned I thought simply a Chinese revaluation wouldn't take more than $10 billion off our deficit with them, which is, you know, trivial in the context of a current account deficit of almost 600 billion U.S. dollars. But if the other Asian countries moved, as well, which is a possibility as I just mentioned, the cumulative weight in our trade is something closer to 30 percent. And that would have a much more significant effect on our overall current account balance. It still would not change the bilateral balance, and I think we ought to be giving more attention to our global position rather than simply to our position with China.

The CHAIRMAN. So we ought to be having a multilateral talk, as opposed to simply approaching the Chinese, on the currency issue.

Dr. LARDY. Yes. That would be my view.

The CHAIRMAN. Secretary Brown, was there a hint in your testimony that if the United States proceeds with missile defense in a big way, this could lead China from at least a fairly modest number of ICBMs to a larger number? In other words, is it fair to say they're just simply going to leave things as it stands, whether we do missile defense or not?

Mr. BROWN. My own judgment would be that the Chinese are going to increase the number of their long-range ballistic-missile force in any event. But I think that the pace would be substantially affected. The pace and the total size, both, would be substantially affected by the size of a U.S. ballistic-missile defense, that is, our national missile defense program.

The CHAIRMAN. Dr. Campbell, you mentioned an important point about which many of us are reading. Especially younger South Koreans, in the 30s generation and what have you, are finding a very strong tie with China. Some even are knotting a strong tie with North Korea. That is, South Koreans are rediscovering the North. They have much more in common than we would think that they would find.

At the same time, the Chinese, in the negotiations we're having, are very reticent to impose any further economic sanctions. And again and again we keep hearing, simply because they want North Koreans to stay in North Korea, that to impose economic sanctions at this point, they believe, would be to lead to some flight of desperation of North Koreans before they starve coming into China or elsewhere. This is difficult for Americans to follow, and this is why your testimony is very important, to educate us as to the nuances of these relationships.

What should be our advice to the Chinese in this respect? They share our thought that nuclear development is unhealthy in that area and that this is a genuine threat, and yet, at the same time, the North Koreans have not been particularly responsive thus far to whatever has been said to them. Clearly, most observers of this point out how awesome military activity would be for everybody involved. So if that was taken off the table, we get back to some economic sanctions or some disapproval of that sort of which the Chinese are the major instrument. What is likely to be their reaction down the trail to these sorts of pressures?

Dr. CAMPBELL. Thank you, Senator. You raise a host of extraordinarily important and difficult questions on the Korean Peninsula.

I would just say that oftentimes with Chinese friends, they will say one thing publicly and then occasionally do some things differently privately. I think that, for a variety of reasons, they are ramping up privately very substantially the pressure on Pyongyang. And I wouldn't be at all surprised if the reports that you and others referred to in the Los Angeles Times today, and elsewhere, that suggest that there may be some slowing down of activities at various nuclear facilities in North Korea, turn out to be true. And I think that will largely be because of China putting a very stiff arm on them.

What's animated Chinese pressure, I think, is not only concern about North Korea—and I think they're very worried about quite a provocative leadership there—China is also a little bit worried about the United States. They look at our activities on the peninsula, and they're not completely clear where we're coming down. We're very reluctant to have bilateral dialogs. It seems almost to be, sort of, an issue of principle for us, where it really should be just a tactical concern. And they don't want us to do anything that's unpredictable either. And I think part of that's tactically motivated by the administration.

So I think China will play a more powerful role, not in the United Nations, not formal sanctions, but behind the scenes.

The first issue that you referred to is the one that I worry the most about. I think our natural ally, the nation in Asia, in fact, that I think we have the closest spirit to, in many respects, is South Korea. The most worrisome thing that we've really witnessed in the last year is a very substantial degradation of our relations. It's not a crisis between Washington and Seoul, but there is a mounting anti-Americanism in South Korea. I think South Korean politicians have played this in a most unfortunate way. And if I were, you know, sort of, thinking about the future, one of the things that we have to keep in mind is the long game on the Korean Peninsula. And our interests are to have a close relationship with the successor regime on the peninsula. And that will be dominated by the political power in South Korea. And keeping that foremost in mind is absolutely essential, and I think we've lost a little bit of sight of that in recent months, and it's very important to keep that clearly understood.

The CHAIRMAN. Well, thank you for your alert and your analysis.

I would love to be given the opportunity to ask questions of you for quite awhile, but I'm going to observe that the Senate has gone into recess. We'll be having a memorial service at noontime.

And so, in respect, obviously to that and to my colleagues, at this time I will bring the adjournment gavel down. But I thank each one of you very much for your papers, and we will try to make use of the wisdom you've given to us.

Thank you very much. And the hearing is adjourned.

[Whereupon, at 11:55 a.m., the committee adjourned, to reconvene subject to the call of the Chair.]

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

RESPONSES OF HON. JAMES A. KELLY, ASSISTANT SECRETARY OF STATE, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR SAM BROWABACK

Question 1. What is the Department proposing to do to ensure that the Bridge Fund has adequate and consistent funding during this critical time so that it can carry out its important work in the priority areas identified by the Dalai Lama?

Answer. The Department's Special Coordinator for Tibetan Issues and the Bureau of East Asian and Pacific Affairs, in coordination with USAID, are looking forward to continuing to work with the Bridge Fund in carrying out cultural preservation, environmental conservation, and sustainable development programming in Tibetan regions in China. It has always been our goal to disburse funds in a timely way, while at the same time fulfilling the Department's and USAID's internal regulations and due diligence requirements.

Question. 2. Has the Department, together with other agencies of the U.S. Government, formulated a policy for U.S. public and private investment in the Lhasa-Golmud railroad? Have you or other U.S. officials raised concerns about this railroad with Chinese officials?

Answer. We are closely monitoring the social and environmental impact of China's Western Development Initiative currently underway in Tibetan regions, including the railroad. We are concerned that the construction of the railway could accelerate the movement of Han Chinese into the Tibet Autonomous Region, impact the Tibetan culture and way of life, and have a deleterious effect on the fragile ecosystem of the Tibetan plateau. In addition, as noted in the Department of State's Human Rights Reports, we are concerned about the economic marginalization associated with non-Tibetans benefiting disproportionately from government-funded infrastructure and development projects in Tibetan regions and have made our views known to the Chinese government.

Question 3. What is the administration doing to let the Chinese Government know that the case of Yang Jianli needs to be resolved swiftly and that this type of treatment is unacceptable?

Answer. As I noted during my testimony, Dr. Yang Jianli's case is a priority for this administration. Dr. Yang's incommunicado detention for over a year is in blatant violation of China's own laws, as well as international law, as evidenced by the findings of the United Nations Working Group on Arbitrary Detention. His treatment during detention is also troubling.

Since his detention in China in April 2002, we have raised Yang Jianli's case publicly and privately on an almost weekly basis. U.S. Ambassador to China Clark Randt, other senior members of the administration, and I personally have raised Dr. Yang's case with our Chinese counterparts repeatedly, conveying our serious concerns over denial of his due process rights. For example, I raised Dr. Yang's case with Chinese Ambassador Yang Jiechi the afternoon of the September 11 SFRC testimony, urging Dr. Yang's release. Assistant Secretary of State for Human Rights, Democracy and Labor Lorne Craner has called for Dr. Yang's release, and discussed the case at length during the December 2002 session of the U.S.-China Human Rights Dialogue in Beijing. In addition, our Embassy in Beijing requested to observe Yang's August 4 trial. Although that request was denied, Embassy officers have continued to urge the PRC to bring Yang's case to an expeditious conclusion and return him to his wife and family in the U.S. We will continue to raise his case at every opportunity.

Administration officials are also in regular contact with Dr. Yang's wife, Christina Fu, and other family members in the United States and China, and share with them any developments. Over the past few months, Ms. Fu has met with various State Department officials, including Under Secretary for Global Affairs Paula Dobriansky and Assistant Secretary Craner, to discuss her husband's situation.

I want to assure you again that we will continue to do everything possible to ensure that Dr. Yang is treated fairly and humanely and will urge that his case be resolved speedily.

RESPONSES OF HON. JAMES A. KELLY, ASSISTANT SECRETARY OF STATE, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR GEORGE ALLEN

Question 1. As you are aware, in January this year I introduced S. 243. The bill authorizes the administration to initiate a United States plan to endorse and obtain observer status for Taiwan at the WHO meeting. This bill was passed by both Houses of Congress and signed into law by President Bush. Even with the SARS situation, Taiwan was not able to become an observer in WHO. Could you tell me more about what the State Department will do in addition to the report you submitted to Congress?

Answer. The Department of State fully supports the overall goal of Taiwan's participation as an observer in the World Health Organization (WHO). Taiwan can make important contributions to improving global health and its participation as an observer is in the interests of the international community. We have therefore urged the WHO and its members to find appropriate ways for Taiwan to participate, including observer status, and we will continue to do so. Under the World Health Assembly's (WHA) rules of procedure, however, a majority of the 192 member states would have to approve a resolution to confer observer status on Taiwan. The majority of WHO member states have not yet been willing to approve a new agenda item at the WHA on observer status for Taiwan. This step is necessary before a resolution could be considered.

Our longstanding policy is to support finding ways for Taiwan's voice to be heard in organizations in which Taiwan cannot participate as a member. In 2001 and again last year, we worked intensively with Taiwan representatives in Washington, Taiwan, and Geneva in order to advance the goal of participation by Taiwan in the WHO. We have held annual strategy meetings to determine how best to advance Taiwan's legitimate interest in contributing to the work of the WHO.

Taiwan's problem obtaining observer status is not due to a lack of U.S. commitment. We have a realistic appreciation for the challenges ahead, however.

Question 2. When President Bush said the United States will take whatever it takes to help Taiwan defend itself, it sends a very clear message to the PRC that our policy toward both sides of the Taiwan Strait is based on peaceful resolution embodied in the Taiwan Relations Act of 1979 and the Six Assurances of 1982 (please see note). This clarity strategy reduces miscalculation and recklessness. While United States needs cooperation from China to tackle North Korea and Iraq issues, can you, Secretary Kelly, reiterate that the TRA and the Six Assurances remain the comerstone of our policy towards Taiwan and the PRC?

Answer. The U.S. has a "one China" policy, first articulated in the Normalization Communique of 1979. "The Government of the United States of America acknowledges the Chinese position that there is but one China and Taiwan is part of China." The Taiwan Relations Act (TRA) has provided the foundation for our unofficial relationship with Taiwan since normalization of diplomatic ties with the PRC in 1979. We remain committed to our obligations under the TRA to make available defense articles and services to enable Taiwan to maintain a sufficient self-defense capability and provide for Taiwan's legitimate defensive needs. In doing so, the United States is careful to provide weapons that are defensive in nature and which would not destabilize the cross-Strait situation.

Our position continues to be embodied in the "six assurances" offered to Taiwan by President Reagan. We will neither seek to mediate between the PRC and Taiwan, nor will we exert pressure on Taiwan to come to the bargaining table. The United States does not consult with the PRC on arms sales to Taiwan. No timeframe has been set for reductions of U.S. arms sales or for their termination.

The U.S. has an abiding interest in the peaceful resolution of cross-Strait differences. Our policy has been consistent for over 20 years. It is articulated in the Taiwan Relations Act, the three Communiques, and the Six Assurances.

Question 3. As the PRC deploys hundreds of missiles across the Taiwan Strait, have you discerned any significant differences or changes in the military balance in the region that might affect the U.S. interest?

Answer. Modernization and training developments in recent years highlight China's continuing effort to improve quantitatively and qualitatively the capabilities of its conventionally-armed SRBM force. There are approximately 450 SRBMs already in the deployed inventory; this number is expected to increase by over 75 missiles per year over the next few years. The accuracy and lethality of this force also is expected to increase through the use of satellite-aided guidance systems. As China increases the accuracy and lethality of its conventional ballistic missile arsenal, a

growing and significant challenge is posed to U.S. forces in the Western Pacific and to Taiwan.

We seek the reduction of cross-Strait tensions. We have called on the PRC to renounce the use of force and reduce military deployments targeted against Taiwan. We encourage the PRC to show more transparency in this area to build trust and reduce tensions across the Taiwan Strait. We are convinced we can do this as we pursue with the PRC a broad range of U.S. strategic interests ranging from human rights, counter-terrorism and non-proliferation to regional stability and trade.

Our interaction with the PRC on these matters serves global interests. We believe that it also strengthens mutual understanding between our two countries and supports U.S. and Taiwan interests in security, stability, and prosperity.