

UNITED STATES-CHINA TRADE RELATIONS AND
THE POSSIBLE ACCESSION OF CHINA TO THE
WORLD TRADE ORGANIZATION

HEARING
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS
FIRST SESSION

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JUNE 8, 1999
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**UNITED STATES-CHINA TRADE RELATIONS
AND THE POSSIBLE ACCESSION OF CHINA
TO THE WORLD TRADE ORGANIZATION**

TUESDAY, JUNE 8, 1999

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

The Subcommittee met, pursuant to notice, at 1:02 p.m., in room 1100, Longworth House Office Building, Hon. Philip Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE

Contact: (202) 225-1721

May 28, 1999

No. TR-11

Crane Announces Hearing on United States-China Trade Relations and the Possible Accession of China to the World Trade Organization

Congressman Philip M. Crane (R-IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on United States-China trade relations and the possible accession of China to the World Trade Organization (WTO). The hearing will take place on Tuesday, June 8, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 1:00 p.m.

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

BACKGROUND:

Article XII of the Agreement Establishing the World Trade Organization states that any State or separate customs territory may accede to the WTO "on terms to be agreed between it and the WTO." In practice, any WTO applicant must negotiate terms for membership in the WTO in the form of a Protocol of Accession. Through the operation of a Working Party, the United States and other WTO members have an opportunity to review the trade regimes of applicants to ensure that they are capable of implementing WTO obligations. In parallel with the Working Party's efforts, the United States and other interested member governments conduct separate negotiations with the applicant. These bilateral negotiations are aimed at achieving specific concessions and commitments on tariff levels, agricultural market access, and trade in services.

China applied for accession to the General Agreement on Tariffs and Trade in July 1986, and work has proceeded sporadically in the China Working Party since that time to negotiate the conditions upon which China will enter the WTO.

On April 8, 1999, Ambassador Barshefsky announced that U.S. and Chinese negotiators secured broad progress toward an expansive bilateral market access agreement, along with Chinese commitments to adopt WTO rules relating to such issues as technology transfer and offsets, subsidies, product safeguards, and State enterprises. China also agreed to an immediate end to sanitary and phytosanitary bans on the importation of United States wheat, meat, and citrus products.

Because the United States does not extend unconditional normal-trade-relations (NTR) status to China as a result of the application of the Jackson-Vanik amendment to that country, the United States must invoke the non-application clause of the WTO (Article XXXV) upon China's accession, meaning that the United States would not apply the WTO Agreements to China. Granting China unconditional NTR trade status would require amending sections 402(a) and (b) of the Trade Act of 1974, the so-called Jackson-Vanik amendment. That law sets forth criteria which must be met, or waived by the President, in order for the President to grant NTR

status to non-market economies such as China. Conditional, non-discriminatory NTR trade status was first granted to the People's Republic of China, pursuant to Title IV, on February 1, 1980, and has been extended annually since that time. Extensions are granted based upon a Presidential determination that such an extension will substantially promote the freedom of emigration objectives in Title IV of the Trade Act of 1974.

Annual Presidential waiver authority under Title IV expires on July 3 of each year. The renewal procedure requires the President to submit to Congress a recommendation for a 12-month extension by no later than 30 days prior to the waiver's expiration (i.e., by not later than June 3). The waiver authority continues in effect unless disapproved by Congress. Disapproval, should it occur, would take the form of a joint resolution disapproving the President's determination to waive the Jackson-Vanik freedom of emigration requirements for China.

In announcing the hearing, Chairman Crane said: "It is troubling for those of us who support normalizing U.S. trade relations with China to observe that China's WTO negotiations—marked by enormous progress in April—are again suspended due to China's unwillingness to sit back down at the table. Premier Zhu's offer to President Clinton represents costless, unilateral trade concessions for U.S. firms and workers which are in danger of slipping through our fingers, a sad casualty of deteriorating of relations in other areas. I urge the President and the Chinese leadership to push ahead on trade talks with a clear appreciation of the commercial gains that would be associated with a sound WTO agreement, despite the formidable problems that dominate many other aspects of bilateral relations between our two countries."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine the status and future of United States-China trade relations, including the yearly renewal of China's normal trade status, and the problems and opportunities associated with the entry of China into the WTO. Testimony will be received on objectives for the negotiations with China, as well as on the anticipated impact of its WTO membership on U.S. workers, industries, and other affected parties. In particular, witnesses should discuss the potential value of the recent Chinese concessions to U.S. commercial interests. Members of the Subcommittee would also welcome testimony on how progress in China's WTO negotiations are affecting the pending application of Taiwan to join the WTO and the potential impact on China, Taiwan, and Hong Kong of normalized trade relations.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225-1721 no later than the close of business, Wednesday, June 3, 1999. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225-6649.

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

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

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, of their prepared statement for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than Friday, June 4, 1999. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Tuesday, June 22, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

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

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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

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

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

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

Note: All Committee advisories and news releases are available on the World Wide Web at "<http://www.house.gov/ways-means/>".

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

Chairman CRANE. Will everybody please take seats so we can start? We have a long full day. Everyone, please take a seat. I

would like to request of my colleagues here on the Subcommittee that you please do not question our colleagues who are testifying today. It is not that there may not be legitimate questions that you could take up with them at a later time, but we are under a constraint, especially for Secretary Fisher. He has a son graduating from Harvard, and he has a flight to catch to make the commencement exercises. So out of deference to him, he follows our colleagues here in his testimony. We want to get him on his plane.

All of our colleagues, I would ask you if you will, please, to try and confine your oral testimony to 5 minutes or less. All written testimony will be made a part of the permanent record. With that, we will take you up in the order that you are indicated on the program here. Chris Smith will be our first witness, followed by Frank Wolf—well, of those present, Frank Wolf and Cal Dooley.

But before that, let me just say that we are here today to review the status of U.S.-China trade relations in light of recent progress in China's negotiations to join the World Trade Organization. On an annual basis, as required by the 1974 Jackson-Vanik statute, Congress considers the question of renewing China's NTR, normal trade relation status. I am putting Members and witnesses on notice that we may adopt a penalty system for careless references to the obsolete term MFN trade status. It may cost you a dollar.

With the recent revelations of our lax defense against Chinese espionage activities and the bitter reaction in China to the accidental bombing of the Chinese Embassy in Belgrade, United States-Chinese relations continue down a rocky road. Clearly there are many areas of our bilateral relationship which will be fraught with friction and possible danger if the two countries remain on a course of mutual condemnation. The shining exception to the negative revelations of recent weeks is China's new willingness to embrace the market-oriented trade disciplines of the WTO as evidenced in the April 8 package of concessions put on the table by Premier Zhu Rongji. This extraordinary set of possible commitments is analyzed by the Congressional Research Service in a recent paper that has been distributed to the Members and is available in our Committee offices.

There is no doubt that history in Asia and the evolution of China will be different in the next century if the United States lets this WTO deal, which is so close at hand, slip through our fingers. The President and Congress face the choice of harvesting extraordinary commercial opportunities for U.S. firms and workers. Unlike any other major trade agreement, this is a one-sided set of concessions. In exchange for steep tariff reductions and wholesale reforms of the Chinese trading system, the United States gives up nothing. At the same time, we preserve our positive influence over the direction of the turbulent change that is occurring in China.

I urge the administration and China to conclude this important negotiation as soon as possible. At that point, I am committed to working with the President to achieve permanent NTR for China. Since 1980, all legislative attempts aimed at revoking NTR have been unsuccessful. House votes in recent years have been resoundingly in favor of maintaining commercial engagement with China. One wonders what is gained by bringing the disapproval resolution up for sure defeat year after year. This is not a dynamic that cre-

ates any pressure on the Chinese to improve human rights practices. All Presidents since 1980 have realized that slapping China through the revocation of NTR will not bring about the changes that we all seek in China. Cutting off avenues of communication and trade will not help the Chinese people create the future that we want for them. Nothing would be better for our long-term national security interests in China and the Asian region than ensuring that China enters the next century on an economic reform path shaped and defined by the free market trade rules of the WTO.

I would now like to yield to my distinguished colleague from Michigan, Mr. Levin, for an opening statement.

Mr. LEVIN. Thank you very much, Mr. Chairman. This year's review of U.S. trade relations with China comes, as we know, on the heels of several major events: the tenth anniversary of the violent suppression of student demonstrations at Tiananmen Square; the Cox report's revelation of extensive breaches of security at our national laboratories, and the highly disproportionate response of the Chinese Government to the accidental bombing of China's Embassy in Belgrade.

These events no doubt have an impact on another major event, the negotiation on China's accession to the WTO and the eventual extension of permanent normal trade relations to China. We do not make trade policy in a vacuum. It is to be expected that developments in U.S. security and diplomatic relations with China will have an impact on commercial relations with China. Clearly, we must pursue our national interests in each and every aspect of our relationship with China. That means tightening security at our national laboratories and taking greater precautions in pursuing international scientific exchanges. It means pressing China to improve its human rights record through multiple efforts. It also means continuing to develop sound economic relations with China.

China's economy is simply too large to be ignored, and it's growing. It offers potential benefits to U.S. producers of goods and services, but it also competes with many of these same producers. For these reasons, we must develop the rules that will govern all of the dimensions of our economic relationship with China. In the end, I believe that most Members of Congress and most of our constituents will judge any agreement on China's accession to the WTO on what it will mean mainly for the American people and for their own standard of living.

Recent events have the potential to deter us from working on the economic issues at the core of U.S. negotiations with China and its accession to the WTO. We must not let that happen. Its accession to the WTO raises challenges inherent to the accession itself. Specifically, how can the country that contains the world's largest non-market economy still in the early stages of transition to a market economy, and where the rule of law is still relatively weak, become part of an international structure based on market principles and the rule of law? How can the country with the world's largest labor market, where certain core labor standards, for example, the right to bargain collectively and the right to free association have not yet taken root, be integrated into an organization that is just beginning to grapple with the interaction between trade policy and labor market issues?

I have no doubt that this year's debate on annual renewal of NTR will be the occasion for raising a wide range of issues. I believe that it is important that we give those issues full consideration. I believe that at the end of the debate, we will vote to renew China's NTR status for another year. But while the process runs its course, it is essential that we keep our eyes on the terms under which China should be admitted to the WTO. Even as we consider the immediate question of annual renewal, we should be working toward answers to that broader question.

On that note, let me say just a few words on how China should be brought into the WTO. As I have said on several occasions, China's accession to the WTO must be done and must be done right. That means that the accession agreement must contain mechanisms to ensure that China lives up to its market access commitments that it makes on paper, that the U.S. will be able to detect violations of those commitments when they occur, and that we will be able to enforce those commitments effectively.

When U.S. businesses compete in countries that have well-established, consistently enforced commercial laws, they operate against a backdrop of predictability. They can anticipate that certain actions will have certain legal consequences and they can exercise their business judgement accordingly. China lacks the legal framework critical to the efficient operation of commerce and the predictability that comes with such a framework. Therefore, the agreement on China's accession to the WTO must establish itself, mechanisms for detecting violations of China's commitments and enforcing U.S. rights.

As today's *New York Times* reports, there is substantial resistance within the ranks of China's bureaucracy to making the market access commitments necessary to join the WTO, including in key areas such as telecommunications. Thus, when it comes to trade relations with China, close monitoring and rigorous enforcement are necessary.

In short, we must not conclude a deal with China simply on the basis of expressed commitments to afford greater market access. Especially in light of the erosion of confidence brought on by recent events, our negotiators must insist on concrete mechanisms. Moreover, we must not forget that China increasingly will be a competitor as well as a consumer. It is a competitor that is not constrained by the market principles that govern the operation of U.S. enterprises. Our negotiations with China should not be solely about how United States companies operate in the Chinese market, but also about how Chinese companies operate in the American market.

Our trade laws already contain provisions that apply specifically to certain imports from nonmarket economies that harm U.S. industries. Those provisions must continue to apply to China as long as China remains a nonmarket economy. We should set no artificial deadlines for changing the rules that apply to China as a competitor.

Further, and let me add, China's accession to the WTO should serve as an impetus to equip the WTO with the means to address the interaction between trade policy and labor market issues. Some of the issues negotiated with the Chinese and several that remain

outstanding do reflect the interplay between the very different labor market structures of China and our country. Examples include the specific and special antidumping rules that apply to goods from China and special sectoral safeguard mechanisms against surges of Chinese goods into the United States.

With the challenge of integration of the world's largest labor market into the world's trading system, the time has come to recognize more fully that policies affecting labor markets are inherently commercial issues having major impacts on trade, and should be dealt with as trade issues. China's accession cannot bear all the weight of this task. However, it should be a catalyst. The United States should obtain China's commitment to engage on these vital issues with other WTO members beginning with the Ministerial Conference in Seattle.

Finally, let me say a word about review of China's human rights record. It has been 10 years since the atrocities at Tiananmen. In that time, annual review of MFN status, pursuant to Jackson-Vanik, has become a vehicle for careful scrutiny of its record. Though views on the effectiveness of that vehicle have varied, it has ensured that at least yearly, Congress would press China to improve its human rights record. As we contemplate granting China permanent NTR status, it is incumbent upon us to find an alternative framework with which to continue our important efforts in that direction.

Our negotiators have made important strides toward China's accession to the WTO, but important work remains to be done. I remain hopeful that soon the negotiators will return to the table and they will build upon the progress made, as well as tackling those issues left outstanding. Discussion of Chinese accession to the WTO deserves better than the usual polarized debate between protectionism and free trade. Globalization is here to stay and will increase. The real issue is not protectionism versus free trade. It is the structure in which free trade will operate, especially as evolving economies are integrated into the world trading system. In this regard, China raises most decisively both the opportunities and the challenges.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you. I would now like to yield to our distinguished colleague from Washington State, Ms. Dunn.

Ms. DUNN. Mr. Chairman, I would ask unanimous consent to submit my remarks for the record.

Chairman CRANE. Without objection, so ordered.

[The opening statement follows:]

Statement of Hon. Jennifer Dunn, a Representative in Congress from the State of Washington

Mr. Chairman—

Each year this Committee and the Congress turns its attention to China there is a heated debate about new information that may further jeopardize this complex relationship. Whether it be the technology transfer controversy of last year, human rights abuses, record trade deficits, or aggressive maneuvering toward Taiwan, we can always find fault in the actions of the Chinese government. Every year, however, we overcome these obstacles because we recognize that the long-term interest of both the American and Chinese *people*, not their governments, is best served through engagement.

This year it is different.

Just 11 months after President Clinton's visit to China, the two countries are now deeply embedded in mutual acrimony and distrust. The U.S. Embassy in Beijing is still repairing damage inflicted during four days of violent demonstrations that followed the bombing of China's Embassy in Belgrade. Bilateral dialogues on most subjects have been suspended. China has withdrawn permission for U.S. warships to call on Hong Kong. The bipartisan Cox Report was recently released detailing a systematic Chinese effort to attain sensitive U.S. military secrets. China has even put a bilateral agreement with the U.S. on its accession to the World Trade Organization on indefinite hold. Only six weeks ago, this seemed to be China's top priority for this year.

Perhaps most troubling is the intense battle inside China between Premier Zhu Rongji and hard-line communists who see an opportunity to increase their power within the government. In mid-April the Clinton Administration rejected Premier Zhu's forward leaning offer on accession to the WTO. This left him to return empty-handed to Beijing where he was besieged by those seeking to halt economic reform. This deal, in their estimation, was a sellout.

These events, particularly the Cox Report, raise serious questions about our national security that *must* be addressed. But they must be addressed independently and with a careful eye toward a comprehensive China policy. And we must recognize the difference between selling U.S. goods and services made by hard-working Americans and selling sensitive military technology that threatens our national security. With calls from officials inside both the U.S. and Chinese governments for an overhaul of our respective policies toward one another, we are at a critical juncture.

I strongly believe that it is in the best interest of the American and Chinese people to engage one another. The open exchange of goods and services has been a critical component of fostering understanding between nations for centuries. It permits Ned Graham, the son of Rev. Billy Graham and strong proponent of trade with China, to distribute millions of bibles in mainland China. And it will help foster the development of the Internet, which I believe will be an unstoppable force in getting new ideas into a closed society. As a result, I believe it is critical that we continue to foster our trade relationship with China during this precarious time.

It is my hope that China will take the necessary steps for an agreement on WTO accession soon so that it may participate in the important global trade talks that will occur at the Seattle Round later this year. Halting trade with China will only further undermine the efforts of Premier Zhu to reform their state-controlled economy and will improve the status of hard-line communists intent on demonizing the U.S.

I look forward to speaking personally with all of my colleagues over the next month to understand their views on this important matter.

Thank you, Mr. Chairman, for putting together an impressive line-up of witnesses for our hearing today. I am interested in hearing their important perspectives on a broad range of issues involving our relationship with China.

Chairman CRANE. I want to thank the witnesses in advance for their prepared testimony they are about to deliver, and ask you again, please try and keep your prepared statements to 5 minutes or less. Any printed statement will be made a part of the permanent record.

I would like to welcome also our colleague Mr. Blumenauer, who was not on the printed record here, but he is here as a witness this morning. With that, we'll proceed.

Mr. RANGEL. Mr. Chairman.

Chairman CRANE. Yes.

Mr. RANGEL. I would like unanimous consent to enter my statement into the record.

Chairman CRANE. Without objection, so ordered.

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

Statement of Hon. Charles B. Rangel, a Representative in Congress from the State of New York, and Ranking Member, Committee on Ways and Means

Mr. Chairman, thank you for holding today's hearing. This hearing comes at a crucial juncture for U.S.-China relations, and presents an ideal opportunity for this Subcommittee to assess and evaluate the recent events that have complicated our relationship with that country.

Over the last six months, U.S.-China relations have hit historic high and low points. In January, the Select Committee completed the classified phase of its work, preparing the Cox report which detailed China's wide spread and systematic effort to obtain classified U.S. military technology. That report, which was released to the public two weeks ago, has raised legitimate concerns about aspects of our policy toward China.

In February, the State Department issued its annual report on human rights abuses. Unfortunately, that report suggests that some of the positive steps that China made on the human rights front in 1997 and early 1998 were short lived, and that the overall human rights situation in China worsened last year. That is not welcome news, particularly as we marked the 10th anniversary last week of the massacre at Tiananmen Square.

In early April, relations with China seemed to improve. President Clinton and Premier Zhu Rongji, the leading advocate for market reform in China, met in Washington and were able to announce that U.S. and Chinese negotiators had made significant progress on the terms of China's accession to the WTO. As we all know, the amelioration was short-lived. The accidental bombing by NATO of China's embassy in Belgrade, and the ensuing hostile demonstrations against the U.S. embassy in Beijing and U.S. consulates across China have rekindled hostilities on either side.

I realize we are holding this hearing specifically to discuss our trade relations with China. We cannot, however, ignore the broader security and political issues that will color this debate.

We all agree that the human rights situation in China must improve, and we all agree on the need for political and democratic reforms, as well as more open access to the Chinese market to address the large and growing trade imbalance. The question is what are the best and most appropriate means to achieve these shared goals.

The most effective way to bring about improvements in human rights and political and religious freedoms in China is through continued engagement with the Chinese government and increased contacts with the Chinese people about our way of life. Withdrawal and ceasing to do business with China by removal of NTR status will harm, not improve, the situation. Therefore, I continue to believe that a prudent, eyes-open policy of engagement is the correct approach. As I have in the past, I will support a renewal of MFN treatment for China this year.

History has shown that using trade as a weapon can work only if we have a consensus with our trading partners that we will work collectively and apply similar policies. As proven by the trade embargo against Cuba, for example, our unilateral trade sanctions only give our foreign competitors an advantage. Too many other countries are ready and willing to fill the vacuum we would leave in the huge Chinese market as a consequence of withdrawal of NTR status. We would merely lose exports and the jobs they create.

A policy of engagement, however, cannot be pursued blindly. We must be more realistic about the limits of this relationship, cognizant of where U.S. and Chinese interests diverge, and *vigilant* in areas of national security where China seeks to be a competitor. However, it does not support a complete withdrawal from the relationship.

We also should not repudiate areas where we have substantial common interests, namely—China's accession to the WTO. Earlier this spring, Ambassador Barshefsky and her negotiating team made remarkable progress toward establishing the terms under which China will be granted WTO membership. I applaud their efforts, and hope that the United States and China will be able to resume negotiations on accession as soon as possible. If our negotiators obtain the market access and other commitments necessary to ensure that U.S. companies and workers benefit from China's entry into the WTO and negotiate a framework that will ensure China adheres to those commitments, then I believe we in Congress should support their efforts.

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

Mr. Chairman, thank you for calling this important hearing today to review U.S.-China Trade Relations and China's bid to accede to the WTO.

We are at a critical point in our relationship with China. Recent incidents certainly have put a strain on the relationship, but I am hopeful that Congress will seriously look at these issues in a comprehensive fashion and thoughtfully review all of our policy options, whether it relate to trade or foreign policy in general.

While the mood on Capitol Hill is definitely not pro-China, it is important to remember that the debate about China's WTO accessing is about holding China accountable to international trading rules and protecting U.S. businesses. As troubling as the allegations are, I still believe bringing China into the international community is the only way to promote and protect U.S. businesses in their dealings in China.

We know that WTO membership, if constructed appropriately, would significantly boost China's economic growth. WTO membership will require greater liberalization and openness, which will in turn boost productivity, and according to some estimates, expand China's GDP growth by an additional 0.5% each year.

Recent estimates also predict that the tentative trade agreement, which the Administration unfortunately decided not to conclude, as well as China's WTO accession, would have a positive impact on the US-China trade deficit. Many of China's trade offers on market access would provide across the board benefits for all U.S. exporters and some other offers would lower barriers for specific products and services. The agreement, if consummated, could mean substantial new opportunities for U.S. firms and farmers exporting to or investing in China through greater access to an expanding economy.

Mr. Chairman, thanks again for calling this hearing. I look forward to hearing from our witnesses today about this important issue before our country.

Chairman CRANE. With that then, we will yield first to Hon. Chris Smith of New Jersey.

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

Mr. SMITH of New Jersey. Thank you very much, Chairman Crane and Members of the Subcommittee. I appreciate this opportunity to be here this morning.

Mr. Chairman, the administration's feckless human rights policy toward China has failed miserably. In the 5 years since President Clinton delinked China's MFN status from human rights considerations, there has been significant regression, not progress, within China. Even standing apart from new revelations of nuclear espionage and the skyrocketing United States-China trade deficit, this deteriorating situation justifies, in my view, a fundamental reassessment of United States-China trade policy.

An example may help flesh out the seriousness of the matter. In 1992, the United States and Chinese Governments signed a memorandum of understanding prohibiting trade in slave-made goods, which was followed by a 1994 statement of cooperation. Notwithstanding those agreements and China's own showcase laws against slave-made goods, Beijing is turning the laogai, the Chinese gulag, into an incredible profitmaking venture. Slave-made products from office supplies to Christmas decorations regularly make their way to the shelves of American stores. Even the State Department has been forced to admit, and I quote, that "forced labor is a problem,"

and that the Chinese cooperation with the MOU, and this is their words, "has been inadequate."

Indeed, the Department reports that in every case where the United States asked to visit a suspect facility during 1998, and I quote the State Department, "the Chinese Ministry of Justice refused the request, ignored it, or simply denied the allegations made without further elaboration." In short, Mr. Chairman, the MOU is not worth the paper that it is written on.

The slave-labor MOU is just one of many examples. But it illustrates a fundamental lesson that we ignore at our own peril. When dealing with the Communist dictatorship of the People's Republic of China, the United States cannot settle for paper promises or deferred compliance. We must stop accepting pledges of future improvement in place of actual improvements. The Chinese dictatorship regularly tells bold-faced lies about the way it treats its own people, such as asserting as it did recently, that no one died at Tiananmen Square, when General Qi Huatian was in town and made that infamous statement, I convened a hearing of my Subcommittee and invited witnesses, including a journalist from the *People's Daily*, who was actually imprisoned himself, to give an account as to what actually happened at Tiananmen Square. Everyone concluded that people died there, were bayoneted, were killed, were mowed down, and Qi Huatian said—and he was the butcher of Beijing. He was the one who was in operational command of the killing that went on in Tiananmen Square. He said to a U.S. audience at the War College, no one died. He was given a 19-gun salute, a red carpet treatment here in the United States, and met with selected Members of both Houses, of the House and Senate. I tried to meet with him and couldn't get a meeting with him.

I have had 12 hearings in my Subcommittee, more than 12, and we have heard from people on slave labor, on all the other kinds of atrocities that have been committed, including the systematic use of torture, which has gotten worse, not better, Mr. Chairman. We can't pretend that somehow things are improving.

Mr. Chairman, reforms within China must precede the rewards, I would suggest, of WTO membership, and they should be a prerequisite for the annual MFN status. We need to relink it. Unfortunately, the President delinked it. We need to be wise enough to say human rights matter. We care what you do with intellectual property rights and with copyright law, but if you so abuse your own people, then we have a problem with that, and we won't trade with any dictatorship that happens to come along.

Mr. Chairman, in quarterly reports Amnesty International has released since the President's visit to China, and I have had them testify again before my Subcommittee, they have come up with seven different categories of compliance. In every category, the Chinese Government has failed miserably. For example, release of all prisoners of conscience and Tiananmen Square prisoners. According to Amnesty International, "total failure, regression." Review of all counterrevolutionary prison terms. Amnesty International, "total failure, no progress." Allow religious freedom, "total failure, no progress." Prevent coercive family planning and harvesting of organs. Amnesty International, "No progress." Fully implement

pledges on human rights treaties, "No progress." Review the re-education through labor system, "total failure, no progress." End police and prison brutality, which of course includes the systematic use of torture, "total failure, no progress."

Mr. Chairman, the Communist government of the PRC continues to engage in systematic violations of human rights on a massive scale, including the genocide going on in Tibet. The failure of the administration's current policy to affect any improvement should come as no surprise. While the rulers of the Chinese Communist Party may be ruthless and despotic, they are not stupid. If there is no cost, if there is no penalty to their brutality we will get more of it, and that is what has been happening since the delinking.

Thus, let me just point out when big business and the administration, and the bipartisan group of Congressmen really want change, what do we do? We threatened sanctions on at least three separate occasions. When intellectual property rights were the issue, we dragged out the sanctions tool and said we are willing to impose sanctions unless you change. Beijing got the message and they made reforms and put them into effect.

Mr. Chairman, I hope that this year we more seriously consider the human rights issue. We have paid attention to it in the past, but I think those Members who have said in the past let's just give it to them and hope things do improve, constructive engagement has not worked. We can wait until Christmas, until doomsday, we are not going to see a change. I think we are only kidding ourselves. The dictatorship is getting stronger. They are creating more and more military capabilities, as we have seen. They have blue water navy aspirations. When you piece it all together, this is not a government moving on the path to reform, but quite the contrary. They have had significant regression in every category. I hope that we will withhold MFN this year. I hope the Subcommittee will consider that. Thank you.

[The prepared statement follow:]

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Statement of Rep. Christopher H. Smith
Chairman, Subcommittee on International Operations
and Human Rights, on
United States-China Trade Relations
June 8, 1999

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Mr. Chairman, the Administration's toothless human rights policy towards China has failed miserably. In the five years since President Clinton de-linked China's MFN status from human rights considerations, there has been regression – not progress – within China. Even standing apart from new revelations of nuclear espionage and the skyrocketing U.S.-China trade deficit, this deteriorating situation justifies a fundamental reassessment of U.S.-China trade policy. A couple of examples may help flesh out the seriousness of the matter.

In 1992 the U.S. and Chinese Governments signed a Memorandum of Understanding (MOU) prohibiting trade in slave-made goods, which was followed by a 1994 Statement of Cooperation. Notwithstanding those agreements and China's own laws against slave-made exports, Beijing is turning the Laogai – the Chinese Gulag – into a profit-making venture. Slave-made products – from office supplies to Christmas decorations – regularly make their way to the shelves of American stores. Even the State Department has been forced to admit that "[f]orced labor is a problem" and that China's cooperation with the MOU "has been inadequate." Indeed, the Department reports that in every case where the United States asked to visit a suspect facility during 1998, "the [Chinese] Ministry of Justice refused the request, ignored it, or simply denied the allegations made without further elaboration." In short, the MOU is not worth the paper it is written on.

Similarly, in October 1998, the Chinese regime signed the International Covenant on Civil and Political Rights. Taking the bait, the Administration used China's promise to sign the ICCPR as a reason not to raise China's human rights violations at last year's meeting of the UN Human Rights Commission. The Administration heralded China's signature as an improvement – something that would lay the groundwork for future human rights accountability within China. Admittedly, the ICCPR contains many worthwhile guarantees, such as the right of political self-determination (Article 1), the basic rights of criminal defendants (Article 14), the right of free expression (Article 19), and the right to free elections (Article 25). But within two months after signing the ICCPR, the Chinese government violated each of those provisions in a brutal, systematic crackdown on democratic dissent that continues to this day. In fact, in the last month alone, Chinese officials have detained over 150 dissidents.

The slave labor MOU and the ICCPR signing are only two of many examples. But they illustrate a fundamental lesson that we ignore at our peril: When dealing with the Communist dictatorship of the People's Republic of China, the United States cannot settle for paper promises or deferred compliance. We must stop accepting pledges of future improvement in place of actual improvements. The Chinese dictatorship regularly tells bold-faced lies about the way it treats its own people, such as by asserting that no one died at Tiananmen Square, and that there is complete religious freedom in China. How, then, can we take its word when it comes to matters of mere commerce? We cannot. Reforms within China must precede the rewards of WTO membership, and should be a prerequisite for annual MFN status.

When I say "reforms," I do not mean only economic reforms. We must also demand respect for the basic rights of the Chinese people. The Administration's policy of so-called "constructive engagement" on behalf of human rights has been a disaster, even according to the Administration's own benchmarks.

In quarterly reports, Amnesty International has been tracking the seven human rights policy goals that President Clinton publicly announced before his trip to Beijing in 1998. Those reports detail a complete lack of progress in all categories, and even some regression, during the past year:

- Release all prisoners of conscience and Tiananmen Square prisoners: "**Total failure, Regression**"
- Review all "Counter-Revolutionary" prison terms: "**Total failure, no progress**"
- Allow religious freedom: "**Total failure, no progress**"
- Prevent coercive family planning and harvesting of organs: "**No progress**"
- Fully implement pledges on human rights treaties: "**No progress**"
- Review the "Re-education through labor" system: "**Total failure, no progress**"
- End police and prison brutality: "**Total failure, no progress**"

The Communist government of the PRC continues to engage in systematic violations of basic human rights on a massive scale. It does not allow significant political dissent. It prohibits the free exercise of religion and imprisons religious leaders, ranging from the 10-year-old Panchen Lama to the elderly Catholic Bishop Su of Baoding Province. It summarily executes political prisoners in the Xinjiang Uighur Autonomous Region. It harvests and sells the internal organs of executed prisoners. It forces women who have "unauthorized" pregnancies to abort their children and submit to sterilization. It continues to brutalize the indigenous peoples of Tibet and East Turkestan.

The failure of the Administration's current policy to effect any improvement should come as no surprise. While the rulers of the Chinese Communist Party may be ruthless and despotic, they

are not stupid. If there are no costs associated with the brutality that keeps them in power, then they have no incentive to become less brutal.

Thus, when big business and the Clinton Administration really want to change Beijing's conduct – for instance, in the effort to get China to respect international copyrights – what do they do? Do they decide that we should be patient, that we should constructively engage for a few years, and sooner or later Beijing will come around? No. They use economic sanctions – the very same sanctions they say would be counterproductive as a means of promoting political and religious freedom in China. I am aware of at least three occasions since 1991 when the U.S. Trade Representative threatened to impose billions of dollars in sanctions to vindicate U.S. intellectual property interests. In each of those cases, when faced with the sanctions, the Chinese government changed its behavior.

By their actions, big business and the Clinton administration show their faith in sanctions. By their reactions, Chinese leaders show the efficacy of sanctions. Thus, the question before us is not "Can economic sanctions work?" It is, "Why do we use sanctions to protect software, but not human life; to protect musical recordings but not fundamental political and religious freedoms; to stop movie piracy, but not torture?" In all the years I have been asking that question, I have not yet heard a good answer.

We have abandoned the American ideals of freedom and democracy for the sake of marginally cheaper consumer goods. We have squandered our patrimony of liberty for the profit of corporations who want access to China's inexpensive labor market. The people of the United States are waking up to this reality and, I believe, will no longer stand for it.

It is time to do an about face, to condition expanded trade relations upon respect for internationally recognized, fundamental human rights. American interests and American values demand no less.

Chairman CRANE. Thank you.
Mr. Frank.

**STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MASSACHUSETTS**

Mr. FRANK. Thank you, Mr. Chairman. I believe the time has come for a very drastic reorientation of our approach to the People's Republic of China. We began that approach, after all, during the height of the cold war. The initial approaches came under President Nixon with Secretary Kissinger, explicitly to throw the Soviet Union off balance. We began a triangular relationship in which an American rapprochement with the People's Republic of China was meant to cause maximum destabilization in the Soviet Union's view of the world.

I think there was a great deal to be said for what was then called "playing the China card." But we are still playing the China card, and the game is over. The table has been folded up. It does not make sense. In a three-way relationship with the Soviet Union as a problem, there was something to be said for our trying to establish this good relationship with the People's Republic. That is gone now, the Soviet threat. We, however, are suffering from cultural lag. We still act as if the Chinese are doing us a very big favor by letting us buy five or six times as much from them as they buy from us, by letting them continue on an oppressive internal regime with no real serious objections from us, with increasingly being uncooperative strategically, vetoing at the U.N. continued peace forces in various parts of the world where things are doing well.

In other words, I think we have transformed a strategic relationship in which we were seeking a good relationship with China to offset the Russians, to a situation now where we act as if the Chinese are doing us a big favor in a relationship in which they get all the advantages. I don't know a great deal about Chinese reading habits, but my guess is that one of the most popular books right now in the Chinese inner circles is Tom Sawyer, because they have figured out how to get America to paint the fence and act like they are doing us a big favor by giving us the paintbrush. It is one of the most unequal economic relationships in the history of mankind, the American-Chinese trading relationship.

Now I can understand the dilemma some people would feel if they took the abuse of human rights record of China, and let's remember, China today is the greatest denier of human freedom in the world, and probably by sheer bulk, the greatest denier of human freedom in the history of the world, or certainly no current contender comes close.

Now people might argue well, yes it's true they are terribly oppressive, but we get some economic benefits from dealing with them. Yes, you have to be pragmatic. Sometimes economic benefits will lead you to overlook some oppression. But in this case, we don't get economic benefits. They get almost all the economic benefits. They have a fairly mercantilist regime. They buy from us as little as possible. They sell overwhelmingly, and they sell in part

because they have enormous advantages that come from the mistreatment and exploitation of their own workers. We are not talking about comparative advantage in the classic sense of free trade. We are talking about a regime which has been so oppressive and where the oppression extends to its own denial of the most basic rights of its own workers so that that's one of the reasons we have this exploitation.

So we are overlooking the terrible abuse of human rights in return for them making money off the deal. Now you could argue well, we have these strategic interests with them, and if they were in fact a restraining influence on the lunatics who run North Korea, that might be useful. But increasingly in the last few years, they haven't done much of that. I guess we're holding our breath to make sure they don't veto a resolution at the U.N. that might lead us out of the Kosovo situation. But the Chinese have certainly not been very strategically well and kind toward us. At best they have been neutral on some issues, and they have been disruptive, as I said, vetoing some U.N. resolutions.

Well, then the final argument might have been well, but we are a good influence on them. After all, as countries make more money off us, they become more willing to support human rights. That simply isn't true. This notion that there is something inherently democratizing about the economic development process hasn't proven to be the case in China at all. The notion that the bigger our trade deficit, the more democratic they are going to get just has no basis to it whatsoever.

Now that does not mean we should under no circumstances allow them into the World Trade Organization, although I do think that the annual review is very important. I note it is no longer most favored nation. We now call it normal trade relations, proving that political correctness, that is, concern with the implications of semantics, is not confined to one party or another. We just legislated a little political correctness here by changing "most favored nation" to "normal trade relations." Maybe we should go a little further and say let's call it "a big favor China does us." You could get in maybe a couple more votes if you changed it a little bit even more. But the fundamental point is that we get very little gain.

Then the last point I want to make is this. Even on its own terms, what we have now is people saying well look, you know we are getting all these concessions from China. Well, the concessions are China's promises to stop doing outrageously abusive trade practices that they never should have done in the first place. And we can't even be sure they are going to do it, because what we are told is, and it seems to me contradictory, and I'll close with this, Mr. Chairman. You better make this deal with China because if we make this deal, they will stop doing all these terrible exclusionary unfair things. But, we're told, it is very tenuous that Zhu Rongji has got the votes to do that—votes is obviously kind of a silly concept. I apologize for imposing my values on China by talking about something like votes. Zhu Rongji may not be able to pull this off. Well, that's an explicit admission that there is enormous resistance in China, even to stopping the exclusionary trade practices they have been engaging in.

So the notion that we would put any agreement in place without extremely tough safeguards and enforcement mechanisms, given the recognition that these very concessions, that they will stop doing these things they should never have been doing in the first place, are so contested seems to me a grave error.

So I think we are a long way from reaching the utopia deal. I hope we will continue to vote on normal trade relations or whatever euphemism you call it next year, and I hope in fact we'll vote it down.

Chairman CRANE. Thank you, Mr. Frank.
Mr. Wolf.

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

Mr. WOLF. Mr. Chairman and Members, my objections to MFN have historically stemmed from the concern about China's human rights abuses, its proliferation of weapons and unfair trading practices. There has been absolutely no improvement in any of these areas. But there is a new element this year thrown into the mix. That is, the undisputed evidence of China's espionage of United States nuclear labs and its acquisition of knowledge about our most advanced nuclear warheads.

As I look at the issue in the Cox report, it's almost like the United States will be providing China the economic means through trade to develop the missiles on which they are going to attach advanced nuclear warheads that they took from us, and target these missiles against our children and our grandchildren. It's absolutely crazy. It is like an Alice in Wonderland. We are giving them the economic—it's like giving Nazi Germany the economic support to build its war system whereby they can fight the men that are landing at D-Day.

While it may be painful for some if we restrict China's abilities to trade on favorable terms, China is now, let's say it, a greater threat to the United States security than it has ever been. All said, they have tried to influence our political process, and as Mr. Frank said, we now help them because they are donating money to the process, and we then give them MFN.

The human rights abuses are the same. Catholic bishops—and I know in an abstract thing maybe it doesn't matter—but they have been in jail sometimes for 30 years, bishops and priests have been in jail for 30 years. One that Mr. Smith got Holy Communion from went to jail. What do we do? Even in the report that we sent to the floor, we never even mention these issues. It's give them MFN. We never mention the issues.

House churches are under terrific pressure. Evangelical pastors are being arrested as we sit here today. Churches are being destroyed. Bibles are being confiscated. In 1997, I was in Tibet. The conditions in Lhasa are terrible. Lhasa is nothing more than a dirty Chinese city that the Chinese run with cameras all over. They have destroyed 4,000 to 6,000 monasteries. Every monastery that's still up has a cadre of Chinese officials monitoring them. It would be like at your church or synagogue there would be somebody from the CIA running the operation. We do absolutely nothing.

The Muslims in the northwest portion of the country are still being persecuted. No one speaks out for the Muslims. Democracy activists are prohibited from demonstrating for Tiananmen's 10th anniversary. Mr. Smith and I were in Beijing Prison Number 1 in 1991. The guys we saw in the prison are still in the prison. Imagine what you were doing in June 1989. The Washington Post masthead has changed. Some of you are older. Your hair is greyer. Things have changed. But these men are still in the prisons and we have done nothing to help them out.

They have gulag camps, slave labor camps. People in this room are wearing clothing made in gulag camps that are being exported to the U.S. They are taking kidneys and corneas out of slave labor people and selling them in the United States for \$35,000 and \$40,000. Nothing has really changed with regard to human rights in China. Our policy has done absolutely nothing.

I think the best policy may be the one that Bill Safire mentioned the other day in the New York Times. He said that the best scenario would be for the Congress to reject MFN for China, the President to veto the bill, and the Senate to sustain the veto. That would at least put us on the right side of history. If you watch the Chinese ambassador on the Sunday talk shows. The arrogance that he has of what they are doing. They trashed our Embassy, they bussed people there, and we want to give them MFN.

This government will fall. They have copied the play book of Ceausescu's Romania Government. They will fall. The more trade we give them, the longer they will stay. The less trade we give them, the faster they will fall. So I would urge the Subcommittee, to reject MFN to China. I don't think we are going to change anybody's mind, I really don't. I am not optimistic, but we want to show up. As Woody Allen said, 90 percent of life is just showing up. I just want to show up so that when Radio Free Europe covers this hearing, the people that I talk to in Tibet know that there are people who still care about them. Just like Sharansky would tell us, every time the Congress spoke out on his behalf, if he knew, his life got better, he got more food, he was taken care of, and his family knew. But this government will fall.

I would just ask you this. When you send out your resolution, at least put in a conference report, something about the priest. Put something about the bishops. Put something about Tibet. Put something about these issues so that when this thing is covered, at least, even if it goes the other way, they will know that the United States still cares. Look at the exhibit over in the Cannon Caucus today commemorating Tiananmen Square. The students had the Statue of Liberty, and they quoted the words of Patrick Henry, "Give me liberty or give me death." At least when you send the report, at least give a page or two or three talking, that even though you think trade is going to go on, we do care and we do remember the people that are being persecuted today. I thank you for the opportunity.

[The prepared statement follows:]

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

TRADE PRIVILEGES FOR CHINA ARE NOT IN THE U.S. INTEREST

Mr. Chairman and members of the Subcommittee. Thank you for the opportunity to testify before you today on China trade privileges.

For a number years I have been a strong opponent of extending Most-Favored-Nation trade status—now known as Normal Trading Relations—to the People's Republic of China. My objections have historically stemmed from my concern about China's human rights abuses, its proliferation of weapons and its unfair trading practices. There has been no improvement in any of these areas.

But this year, a new element has been thrown into the mix—undisputed evidence of China's espionage in U.S. nuclear labs and its acquisition of knowledge about some of America's most advanced nuclear warheads.

As I look at this issue and the Cox report, I am concerned that the United States will be providing China the economic means through trade to develop missiles on which to attach advanced nuclear warheads designed with information stolen from the United States so these missiles can then be used to hit our grandchildren, or even our children.

The report of the bipartisan Select Committee on National Security and Military/Commercial Concerns with the People's Republic of China chaired by Rep. Chris Cox found clear evidence that design information stolen from the United States will enable China to build thermonuclear warheads and attach them to ICBM missiles sooner than would have otherwise been possible. It said "the PRC has the infrastructure and the technical ability to use elements of U.S. warhead design information in the PLA's next generation of thermonuclear weapons.... The PRC could begin serial production of such weapons during the next decade...." It also concludes, "The Select Committee judges that elements of the stolen information on U.S. thermonuclear warhead designs will assist the PRC in building its next generation of mobile ICBM's, which may be tested this year." China's mobile ICBM missiles will have the ability to hit the United States.

While it may be painful for some if we restrict China's ability to trade on favorable terms with the United States, China is now a greater threat to the U.S. national security than it has ever been in the past.

We also need to remember that China has deliberately tried to influence our political process through illegal campaign donations.

Every year I share with this subcommittee a litany of human rights abuses committed by the Chinese government. The human rights abuses are the same this year. There has been no improvement. Even the State Department acknowledged that in its most recent human rights report.

Catholic bishops and priests are still being arrested, fined, beaten and imprisoned. Some have been in prison for many, many years—even decades.

House church Christians and laypeople are still being arrested, fined, beaten and imprisoned.

Churches are still being destroyed.

Bibles are still being confiscated.

The Tibetan culture and religion is still being systematically destroyed. Tibetan Buddhist monks and nuns are being arrested and tortured. Tibetan Buddhist monasteries are still being controlled by cadres of Chinese communist security officials. The Tibetan people are still being deprived of their freedom, their livelihood and their culture.

I have seen the repression in Tibet with my own eyes. It is frightening.

Muslims in the Northwest portion of China are still being persecuted—Amnesty International issued a comprehensive report on persecution of Muslim Uighurs earlier this year. Uighurs are being arbitrarily detained. Thousands of Uighur political prisoners are in jail and are being tortured.

Democracy activists are still being watched, arrested, imprisoned, held under house arrest and sent to reeducation through labor camps.

Over one hundred Tiananmen Square protestors are still in prison.

Those wishing to remember the 10th anniversary of the tragic events of spring 1989 when hundreds of protestors were brutally massacred at Tiananmen Square were prevented by the Chinese government from doing so. The families of the dead, wounded and exiled who are demanding an apology from the government of China for its actions in 1989 are being persecuted.

Th Ambassador insulted the intelligence of the American people on Sunday talk shows with his demands.

China still runs a massive system of gulag slave labor camps—the laogai.

It still has a program in which the kidneys, corneas and other organs are taken from executed prisoners and sold to foreign buyers for tens of thousands of dollars. Some of these organs are being peddled in the United States, against U.S. law.

It still engages in coercive population practices—including forced abortions and sterilizations.

So nothing has really changed with regard to human rights in China.

Our policy has done nothing to improve China's behavior regarding proliferation. According to the Director of Central Intelligence George Tenet, China remains a "key supplier" of technology inconsistent with our nonproliferation goals—particularly missile and chemical technology to Pakistan and Iran. On April 15, 1999, the *Washington Times* cited intelligence reports that the Chinese are continuing to sell weapon technologies.

Finally, our policy has resulted in no improvement in ending China's unfair trade practices. The U.S. trade deficit with China continues to skyrocket (approaching over \$60 billion), U.S. goods are shut out of China's market and U.S. jobs continue to be lost to cheap Chinese labor. In 1989, at the time of the Tiananmen massacre, our trade deficit with China was only \$6 billion. Today it is 10 times that.

Some say allowing China into the WTO will force China to play by the rules. China doesn't abide by its commitments regarding human rights and proliferation now. I doubt they will in the future—especially if it is not in their interest to do so.

Our policy with regard to China has been a total failure. It has produced no positive change in the Chinese government on issues of human rights, proliferation and trade and it has diminished the ability of the United States to speak credibly on these issues. It is also endangering U.S. national security, companies making money in China without standing firm on other issues important to the United States. Our current policy is hurting the interests of the American people and it is not bringing freedom to China.

We are building up China's economy so that one day, a strong, authoritarian China with some of the most advanced nuclear weapons in the world can threaten our interests in the region and threaten our people at home. Why are we doing this? It just doesn't make sense.

This subcommittee, the Congress and the administration must send China a strong message about its espionage, its human rights abuses, its proliferation, its unfair trade practices and the other issues on which we have concern. At the very minimum, this subcommittee should include some statement in the report accompanying this bill about the Catholic bishops and priests that are in jail; the people of Tibet who are being persecuted; the Tiananmen protestors who are still in jail and the other grave abuses being committed by the Chinese government. We must let these people know they are not forgotten.

Congress should not rubber-stamp the administration's request for Normal Trading Relations with China. William Safire commented several weeks ago in the *New York Times* that the best scenario would be for the Congress to reject MFN for China, the President to veto the bill and the Senate to sustain the veto. At least that would be something.

I oppose Normal Trade Relations with China. But, I believe Congress will ultimately renew NTR for China and let them off the hook. At a minimum, I urge this subcommittee and Congress to follow the Safire scenario. Let's send China a message.

Chairman CRANE. Thank you, Mr. Wolf.
Ms. Pelosi.

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

Ms. PELOSI. Thank you very much, Mr. Chairman, Mr. Levin, and Members of the Subcommittee, for the opportunity to testify today. I come here as one who is a supporter of free and open trade. I serve as Ranking Member of the Appropriations Subcommittee on Foreign Operations, where I have supported increases in funding for the Ex-Im Bank, OPIC, TDA. I represent a district that is built on trade, and I am blessed with a large Chi-

nese-American community in my district, and it is not a monolith, in the democratic spirit of our great country, contrary to their country of origin.

So I don't come here with a protectionist argument. I voted for NAFTA. I sustained the President's veto on textiles. I supported President Bush's fast track legislation. But I do think that free trade is not stupid trade. Free trade should be fair trade. So in that spirit, I come before you in appreciation for the work that this Subcommittee does on trade.

I come here, Mr. Chairman, to put this debate in the trade context. My colleagues have spoken very eloquently about the human rights abuses in China. They are well known to you, and I have no illusion that on the basis of any human rights violations, this Subcommittee would change its recommendation. I think that was made clear when in Tiananmen Square the Chinese regime crushed its young people under tanks, gave an order to kill, to use lethal force, and it has not affected this Congress. So I don't think any exposition of further human rights violations will move you.

But I have come to talk to you about the subject that this Subcommittee is organized for, trade. Mr. Frank very humorously referenced the name had changed to "normal trade relations." I would say they are abnormal, because if this is normal, then what China is extending to the United States is not normal.

There have been some name changes across the board in the Clinton policy. First it was constructive engagement. Then they turned to strategic partnership. Now it's called something else, principal purposeful engagement, with our eyes wide open, without illusions. Call it whatever you want. The policy remains the same, a failure. A failure. So each year, we have this opportunity on the MFN vote to hold it as a referendum on United States-China policy, and is the policy in keeping with the pillars of our foreign policy, three of which are promoting democratic values, growing our economy through promoting exports, and stopping the proliferation of weapons of mass destruction. Three of those pillars have crumbled in the United States-China relationship.

I ask you, my colleagues, why we give normal trade relations to China, why don't they give it to us? Or why don't we redefine the word "normal," as long as we're changing names. Is trade with China normal when the U.S. trade deficit with China is surging every year to a projected \$67 billion in 1999? Is it normal that China continues to maintain barriers to U.S. goods and services entering the Chinese market, including high tariffs, pervasive non-tariff barriers, nontransparent barriers, nontransparent trade rules and regulations, restrictions on trading and distribution rights, restrictive government procurement practices, and restriction on investments? Is it normal that China continues to pirate United States intellectual property, costing United States firms an estimated \$2.6 billion in lost sales in 1998 alone, according to the International Intellectual Property Alliance, and that China continues to utilize forced labor for production of exports to the United States in violation of United States laws?

For 10 years, advocates of unconditional, unquestioned, blinded-by-the-light MFN have argued that economic reform would lead to political reform in China, and that United States exports would in-

crease. Political reform of course has not happened and the increase in United States exports to China as a proportion of total United States exports has been so small as to be politically insignificant.

For the record, Mr. Chairman, I have submitted two charts that show that we sell more to Taiwan, Singapore, Belgium, South Korea, those small countries, than we do to China, and South Korea and Brazil, more to them, even though they are in an economic crisis.

I see that the time is going by, but I have to take the time always to talk about the overall trade numbers. For the first quarter of 1999, the United States deficit with China was \$13.6 billion, up 18 percent over the same 3-month period last year. What more do you need to know that this normal is very abnormal? Indeed, it is grotesque in this trade relationship, because this trade deficit springs largely from lack of market access for U.S. products.

I can understand why the business community is here in full glory. The exporting elites who have their access to the China market or prospectively want to have access, are looking out for themselves. They are looking out for their sector and themselves. Those who are interested in having a platform of cheap labor in China need MFN or NTR, whatever you call it, grotesque trade status, to get those products back into the United States. They are interested in themselves. But who on this Subcommittee is looking out for the American worker?

If we in Congress don't do that, I think that we are abdicating our responsibility. I remind the Subcommittee of Mr. Condit of Boeing's remarks about the Boeing planes, portions of which are made in China, when he said every plane that flies to China is returning home. That is because much of the production of that plane is made in China. Insistence on production, insistence on technology transfer. So now we come to this year, which is very, very important because of the prospects for WTO.

I think it would be a good thing if China could be in the WTO and abide by the rules. But if they cannot abide by the rules, they can wreck the WTO and many of the Western economies. Some say that while China has not kept its oral and verbal agreements, it has kept its written agreements. Not so. I have submitted for the record their violation of the market access agreement which the administration's own report to the President of the United States on trade agreement programs, March 9, 1999, says, "The restriction of imports remains a serious problem."

Intellectual property, I mentioned that, but I want to say one point there. A particular concern in this same report is the significant level of unauthorized use of software by both private enterprise and government ministries. Prison labor, my colleagues have gone into. The Chinese have violated the Memorandum of Understanding on prison labor. They violated understandings on market access, intellectual property, prison labor, on proliferation of weapons of mass destruction. That is all in my record statement. Of course getting back to human rights, only from the standpoint of they signed agreements, they never ratified it. They certainly have not enforced any improvement in human rights in China. Again,

these are written promises that the Chinese Government never kept.

So when we talk about WTO accession, it has to be based on performance, not promises. I think it would be great if we could get to the point where we could trust what the Chinese Government has to say. We have to though, as a Congress in this country, recognize that workers' rights and the environment are competitiveness interest issues and must be central to a WTO accession for China. I think that if China is to come in to the WTO, there has to be a year where these concessions are implemented on the fast track so that we know that they are capable of and willing to honor those concessions.

Then I would like to just in closing say, Mr. Chairman, once again, that in our relationship with any country, we should be making the people freer, the world safer, and the trade fairer. Just again focusing on trade because that is this Subcommittee's work, that goal has not been met. None of the three has, but in terms of sticking strictly with the trade issue, that goal has not been met. Before we move forward, we must develop alternative mechanisms to ensure enforcement of China's commitments and to preserve Congress' annual opportunity to review the state of the United States-China relationship.

Again, Mr. Chairman, I thank you so much for the opportunity to testify today, to Mr. Levin, and Members of the Subcommittee as well.

[The prepared statement follows:]

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

Mr. Chairman, Ranking Member Levin, and Members of the Subcommittee, thank you for the opportunity to testify today. Once again, I am appearing before you to discuss U.S.-China trade, and once again, I wish that I could report that the Clinton-Bush China policy was working. Sadly, I cannot. Another year has passed and U.S.-China policy has not made trade fairer, people freer or the world safer.

All of the issues of concern in the U.S.-China relationship deserve and need a full public airing. As this hearing is on trade, I will focus my remarks on that topic. It is interesting that many name changes have been made along the way in the status quo China policy in order to try to make that policy more palatable. The Administration has moved from so-called "constructive engagement," to so-called "strategic partnership" to, most recently, so-called "principled, purposeful engagement....with our eyes wide open, without illusions." The problem is, the underlying policy remains the same.

This Committee itself has helped with the name change process, changing "Most Favored Nation" (MFN) status to "Normal Trade Relations" (NTR), begging the question of what normal trade relations are or should be. Is trade with China "normal" when the U.S. trade deficit with China is surging every year, to a projected \$67 BILLION in 1999? Is it "normal" that China continues to maintain barriers to U.S. goods and services entering the Chinese market, including high tariffs; pervasive non-tariff barriers; non-transparent barriers; non-transparent trade rules and regulations; restrictions on trading and distribution rights; restrictive government procurement practices; and restrictions on investment? Is it "normal" that China continues to pirate U.S. intellectual property, costing U.S. firms an estimated \$2.6 BILLION in lost sales in 1998 (according to the International Intellectual Property Alliance) and that China continues to utilize forced labor for production of exports to the United States, in violation of U.S. law?

For ten years, advocates of unconditional MFN have argued that economic reform would lead to political reform in China and that U.S. exports to China would increase. Political reform has not happened in China. And, the increase in U.S. exports to China as a proportion of total U.S. exports has been so small as to be practically insignificant. According to the Congressional Research Service, in 1989, U.S.

exports to China in 1989 were 1.65% of U.S. exports worldwide. In 1998, U.S. exports to China totaled only 2.1% of U.S. exports worldwide.

The overall numbers of the U.S.-China trade relationship have gotten worse every year (see Chart I). For the first quarter of 1999, the U.S. deficit with China was \$13.6 billion, up 18% over the same three-month period last year. 1999's first quarter deficit alone is already larger than the U.S. trade deficit with China for the entire year of 1991.

Of even greater concern in the 1999 first quarter numbers is the stunning fact that U.S. exports to China were down 15% from the same period in 1998, while imports from China increased by 10% this year over last year. In the first quarter of this year, the U.S. exported more to Canada, Japan, Taiwan, Belgium, and Singapore than to China. We also exported more to both Korea, which is recovering from an economic crisis, and to Brazil, which is still struggling with one, than we did to China (see Chart II).

The most strenuous advocates of unconditional "Normal Trade Relations" with China are the handful of companies with access to China's market—the "exporting elite"—or those companies that are using China's vast pool of cheap labor as a platform for production of goods exported back into the United States. I am neither surprised nor overwhelmed by the lobbying efforts of these companies to preserve NTR for China. They perceive that those activities are in their interests—and the Chinese government rewards them for their efforts. The question for us today should be, who is looking out for American workers?

This year's debate about U.S.-China trade may be the most important one Congress will have. China's possible accession to the World Trade Organization (WTO) and Congressional action on permanent NTR should engender a comprehensive consideration of U.S.-China relations. Some will argue that the way to break down China's barriers to U.S. products and services is through China's accession to the WTO. They may be right. However, if China's accession is not done carefully and on commercially meaningful terms, it could destroy the WTO and hurt the entire global trading system.

There is, unfortunately, little evidence in the U.S. experience with the Chinese government over at least the last ten years which indicates that it will honor the commitments that it makes in either a bilateral or multilateral forum. Any possible WTO agreement must be viewed against the background of the pattern of the Chinese government either signing agreements, not complying with them and requiring the renegotiation of the commitment which it had already made; or simply signing agreements and ignoring them. There is ample evidence of this practice in the areas of trade, proliferation and human rights. In addition, enforcement of existing agreements remains a serious problem. Merely a few examples follow:

ON TRADE:

Market Access

- In 1992, then-U.S.T.R. Carla Hills negotiated a Market Access Memorandum of Understanding. Because of Chinese non-compliance, and only after extensive talks, the MOU was renegotiated in 1994. The agreement has still not been fully implemented, and according to the "1999 Trade Policy Agenda and 1998 Annual Report of the President of the United States on the Trade Agreements Program," (submitted to Congress March 9, 1999) "While China has phased-out formal measures, such as quotas and licenses, non-uniform application of trade rules, import substitution policies and use of sanitary and phytosanitary standards to restrict imports remain serious problems."

Intellectual Property Rights

- The Administration's "1999 Trade Policy Agenda" mentioned above documents the tortured history on China's many agreements on IPR, including a 1992 MOU. Lack of Chinese compliance led to a Special 301 investigation and to the 1995 IPR Enforcement Agreement. Lack of Chinese compliance led the USTR to issue sanctions target lists, legislation was introduced, and in June 1996, the U.S. and China signed yet another accord, "outlining the steps China took to implement the 1995 Agreement and to provide more detailed market access guidelines." To date, according to the 1999 Trade Agenda, "Chinese enforcement of copyrights and trademarks is still uneven from province to province. *Of particular concern is the significant level of unauthorized use of software by both private enterprises and government ministries.*" (emphasis added)

Prison Labor

- Concerns about the export of forced labor products into the United States, in violation of U.S. law, resulted in a 1992 Memorandum of Understanding between the U.S. and China in which China agreed that it would not export such goods to the U.S. and would allow visits by U.S. officials to suspect sites. Lack of compliance forced Secretary Bentsen to renegotiate the MOU in 1994. The Chinese have still not complied, and, according to the State Department's Annual Country Report on Human Rights, "...cooperation overall has been inadequate. In 1998 U.S. Customs unsuccessfully pursued eight standing requests....In all the cases, the Ministry of Justice refused the request, ignored it, or simply denied the allegations made without further elaboration."

ON PROLIFERATION:

Examples of China not abiding by non-proliferation agreements are legion, including:

- The Chinese government's agreement with Secretary Baker to abide by the Missile Technology Control Regime (MTCR), then transfer of M-11 missile technology to Pakistan in violation of the MTCR.
- China acceded to the NPT in March 1992. Serious concerns persist about China's compliance, in light of its nuclear cooperation with Pakistan and Iran. Many analysts believe that China's transfers to those countries violates the spirit, if not the letter of the NPT.
- The Chinese government committed to the Clinton Administration to stop providing cruise missiles or WMD technology to Iran. Recent reports raise serious questions about whether the Chinese government is fulfilling this commitment.
- Questions also persist about China's compliance with the Biological and Chemical Weapons Conventions, with the Administration's own Arms Control and Disarmament Agency reporting in 1997 that, "there are strong indications that China probably maintains its offensive program, " and concluding that, "in the years after its accession to the BWC, China was not in compliance with its BWC obligations and that it is highly probable that it remains noncompliant with these obligations."

ON HUMAN RIGHTS:

Again, agreements signed and not honored abound. Here are the most recent ones.

- In March 1998 in order to head off action against its human rights abuses by the U.N. Human Rights Commission, the Chinese government said that it would sign the International Covenant on Civil and Political Rights (ICCPR). It then put off signing the Covenant until October 5. The ICCPR, which has not yet been ratified by the Chinese government, pledges governments to respect basic freedoms including free association, expression, assembly and religion. In the months following the signing, the Chinese government has not honored its commitment and has instead embarked on a severe crackdown on the very freedoms it pledged to uphold in the ICCPR.

- In October of 1997, the Chinese government signed the International Covenant on Economic, Social and Cultural Rights, and has since taken no steps to ratify it.

China's compliance with a well-conceived, commercially acceptable and enforceable WTO agreement would be a marked improvement over China's wholesale violations of international trade practices. However, with an economy as large as China's and China's pattern of refusing to play by the rules, a WTO agreement that is not enforceable will wreak havoc on the international trade regime.

Last week, the international community observed the tenth anniversary of the Tiananmen Square massacre. As I participated in events to mark this sad occasion, I was struck again by the short-sightedness of the choices that the Bush and Clinton Administrations and the Congress have made, ignoring the promotion of democratic reform in China for a handful of business deals. Some argue that trade should be separated from all other considerations, including human rights. I do not agree and I will be, once again, opposing the annual renewal of NTR for China. We should note, of course, that the Chinese government has never hesitated to link trade with other issues, most recently suspending the WTO talks because of outrage over the bombing of their embassy in Belgrade.

While we disagree on some issues in the U.S.-China trade relationship, I think we should all be able to agree that, for the sake of the U.S. economy and U.S. workers, as well as U.S. businesses, the Congress must fully consider the details of any deal which the Administration might reach with the Chinese government on WTO

accession. China's accession to the WTO is too important to be rushed. Congress should consider the annual renewal of MFN/NTR separately from any proposal to provide permanent MFN/NTR. And, in light of China's history of non-compliance with multilateral and bilateral agreements, Congress should insist on a period of at least one year in which China must implement its accession commitments before permanent NTR is adopted. Finally, before we move forward with permanent NTR for China, we must develop alternative mechanisms to ensure enforcement of China's commitments and to preserve Congress' annual opportunity to review the state of the U.S.-China relationship.

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

CHART I

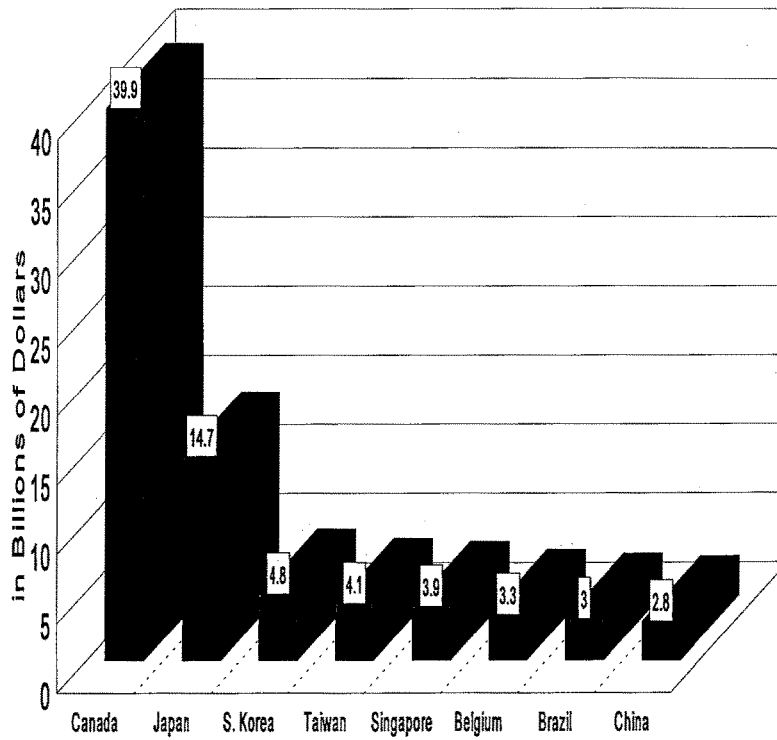
**U.S. Merchandise Trade with China:
1988-1998
(\$millions)**

Year	U.S. Trade Balance	U.S. Exports	U.S. Imports
1988	-3,479	5,033	8,512
1989	-6,181	5,807	11,989
1990	-10,417	4,807	15,224
1991	-12,698	6,278	18,976
1992	-18,309	7,418	25,727
1993	-22,768	8,767	31,535
1994	-29,494	9,287	38,781
1995	-33,807	11,748	45,555
1996	-39,517	11,978	51,495
1997	-49,747	12,805	62,552
1998	-56,898	14,258	71,156

source: U.S. Department of Commerce

U.S. Exports

(January Through March 1999)



Source: U.S. Department of Commerce

Chairman CRANE. Thank you, Ms. Pelosi.

With that, the Subcommittee will go into recess subject to call of the Chair. Mr. Rohrabacher, Mr. Dooley, Mr. Blumenauer, you will be immediately up as soon as we reconvene. That is as quickly as we can get over there, cast our recorded votes, and get back here. Thank you.

[Recess.]

Chairman CRANE. Will everyone please take seats so the Subcommittee can resume the hearing? Please everyone, find a seat and take any conversation outside the door.

With that, we will resume the testimony from our distinguished colleagues, starting with Mr. Rohrabacher.

STATEMENT OF HON. DANA ROHRABACHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. Mr. Chairman, our government has been treating a hostile power, the world's worst human rights abuser as a strategic partner. Americans will pay a woeful price for this irrational, amoral, greed-driven policy if we do not change it. The time has long since passed where the United States should reexamine its fundamental policies toward China. That certainly includes our commercial policies.

The policies of the past decade have not worked in the interests of our country, and have certainly not worked for the interests of the freedom of the Chinese people. After some initial progress, China has gone in exactly the opposite direction, especially since the end of the Reagan Administration and the tragic national reversal of China in 1989 at Tiananmen Square.

In the past 10 years, the genocide has continued in Tibet. The Chinese democracy movement has been wiped out, and there has been increasing belligerence by the clique that runs China. The Beijing regime is modernizing and expanding its military power, while threatening the United States and bullying its neighbors, especially Taiwan and the Philippines.

Big business falsely claims that Communist China is a country that is liberalizing through commercial engagement. There is no evidence of that. In fact, empirical evidence suggests the opposite. Furthermore, the trade relationship has worked against the United States. The Chinese are using their \$60 billion annual trade surplus with us to modernize their armed forces, including building nuclear missiles that are aimed at the United States, and they are continuing to proliferate weapons of mass destruction.

Here are some of the facts that explain why China is not our strategic partner. According to Amnesty International, there are thousands of political prisoners who remain in the laogai forced labor camp prison system. There are at least 2,000 persons imprisoned for so-called counterrevolutionary crimes, and some 200 Tiananmen Square protestors still in prison for their peaceful participation or support of pro-democracy protests 10 years ago.

During the past 2 months, the Chinese Government has issued new laws that strengthen the Communist Party and further re-

strict freedom of speech and the formation of new political parties. Genocide continues in Tibet, where hundreds of thousands have perished. Let me just say that the Communist Chinese Government in Beijing could incinerate the whole country of Tibet, and there would still be people here representing the financial interests in our country, the few financial interests in our country that are benefiting from this trade, telling us that we should ignore that, that that really isn't our business.

Then of course in Xinjiang Province in the far reaches of China, Xinjiang Province, formerly called East Turkmenistan, the suppression of religion, and political arrests continue. Amnesty International in 1999 said that there were at least 190 executions of political prisoners in that province just last year. In Tibet as well as in East Turkmenistan, the local population continues to decline, part through forced abortion and sterilization, and at the same time, we have millions of ethnic Han Chinese moving into this area. When we talk about ethnic cleansing, here our country has committed military force in the Balkans for ethnic cleansing that runs exactly parallel to what's going on in Tibet. Yet in China's case, we are asking for most-favored-nation status to be continued. We are doing trade with them. We are actually giving credits to people who invest in Communist China, while they are practicing their ethnic cleansing and genocide.

China is making major military moves in the Spratley Islands. They are bullying other allies of ours, democratic allies, threatening the sea lanes in the South China Sea, and becoming even more clearly a hostile power.

The resolution I introduced yesterday of disapproving the annual extension of normal trade relations, formerly most-favored-nation status, does not intend to isolate China. This perhaps is probably the most worrisome of the arguments. That is, people are not arguing the real case here. No one is talking about isolating China. No one is talking about that. We are talking about people who go to invest in China should be doing so at their own risk for their own capital, and giving them normal trade relations opens them up to subsidies by the American taxpayers to setting up their businesses to produce goods and services that they export back to the United States. No one is talking about isolating China and not letting them buy our commercial goods here. In fact, it's going in exactly the opposite direction.

What we are doing is through most favored nation status, now called normal trade relations, what we are doing is subsidizing American businessmen's investment in manufacturing units in Communist China, which then will be used to put our own people out of work. If there is anything—I haven't heard of anything more sinful, a greater sin against the American people than taxing them for that purpose.

The trade imbalance reflects this, and reflects the fact that Americans have a low tariff on Chinese imports compared to a high tariff imposed by China on American exports. So the current trade policy with China is no good for our national security, and it's no good for our economic well-being. Who is it good for? It is good for a handful of billionaires who contribute heavily to both political parties. For these reasons, I am asking my colleagues to suspend

this policy, at least for the coming year, to support my resolution of disapproval. Let's at the very least, send a message to the government of Communist China, this clique that runs Communist China, we do expect fair treatment of the United States commercially, and we expect some liberalization to take place. Why should we continue a policy that is so detrimental to the well-being of our own working people and to the national security of our country?

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Dana Rohrabacher, a Representative in Congress from the State of California

Mr. Chairman:

The time has long since passed when the United States should reexamine its fundamental policies toward China. That certainly includes our commercial policies. The policies of the past decade have not worked. After some initial progress, China has gone in the opposite direction, especially since the end of the Reagan administration and the tragic reversal in 1989 at Tiananmen Square.

In the past ten years, the genocide has continued in Tibet, the Chinese democracy movement has been wiped out, and there has been increasing belligerence by the clique that runs China. The Beijing regime is modernizing and expanding its military power, while threatening the United States and bullying its neighbors, especially Taiwan and the Philippines.

Big business falsely claims China is a country that is liberalizing through commercial engagement. There is no evidence of that. In fact, empirical evidence suggests the opposite. Furthermore, the trade relationship is not good for us. The Chinese are using their \$60 billion annual trade surplus with us to modernize their armed forces, including building nuclear missiles aimed at the United States. And they are continuing to proliferate weapons of mass destruction.

The resolution I introduced yesterday, disapproving the annual extension of normal trade relations [formerly MFN] does not intend to isolate China. Instead, it sends the Beijing regime a direct message that the United States will stand by our democratic principles. The Chinese communists have manipulated our openness on trade and American taxpayers have ended up subsidizing investment in China by private corporations, who largely intend not to sell commercial products, to set up manufacturing units that further undercut American industry.

Current trade policy with China is not good for our national security and it is not good for our economic well being. It mostly benefits a handful of billionaires who contribute heavily to both political parties. For these reasons, I ask my colleagues to suspend this policy for the coming year and to support my resolution of disapproval.

Chairman CRANE. Thank you, Mr. Rohrabacher.
Mr. Dooley.

STATEMENT OF HON. CALVIN M. DOOLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. DOOLEY. Thank you, Mr. Chairman and Members of the Subcommittee, for allowing me to testify today on the very timely issue of United States-China relationships and the possible accession of China into the World Trade Organization.

Clearly the United States relationship with China is complicated. Recent events, including the bombing of the Chinese Embassy in Belgrade, China's reaction to the bombing, and evidence of spying at our national labs, have only added complexities to that relationship. We are all in agreement that we must take all steps necessary to protect our national security interests and to ensure that our counterintelligence programs prevent future security breaches. But at this critical juncture, we would be foolish to abandon our

economic and political relationship with China and with it, our ability to influence their economic, political, and humanitarian policies in the future. We cannot afford to embrace a cold war mentality that would demonize and isolate China. A policy of economic and political engagement is the surest way to promote United States interests in China, to advance democracy and human rights in China, and to enhance future economic opportunities for United States workers and businesses.

In order for the United States to remain the dominant economic power in the world, we cannot close the door on the most populous nation in the world. China will continue to have a growing influence on the world's economy. For United States businesses and workers to continue and prosper and grow, we need continued economic engagement with China by renewing normal trade relations, and finalizing a WTO Agreement that will bring China into the international community.

The United States has been aggressively pursuing a WTO Agreement for the past 20 months, and while an agreement has not been finalized, the deal currently on the table represents a tremendous opportunity for all sectors of the U.S. economy. Ambassador Barshefsky as well as Ambassador Fisher and their negotiating team, are to be commended for reaching this unprecedented agreement.

You know, there has been a lot of talk about the trade deficit with China that has grown in recent years. But also people have been implying that this has had significant and adverse impacts on our economy. But one should look at the state of our economy now. It is as strong as it has been in a generation. We have seen record low unemployment. We have seen real wages growing at twice the rate of inflation. We have seen inflation remaining low. While the trade deficit is important, it is also one of the most compelling arguments for us to move forward with the WTO accession of China, because in that agreement are significant opportunities for U.S. interests. Whether it's in the agriculture sector, where we will see beef, our exports to China in beef, tariffs being reduced from 40 to 12 percent. Whether it's on wine, where we are going to see tariffs reduced from 65 to 20 percent. When we move into automobiles, we are going to see tariffs reduced 80 to 100 percent down to 25 percent.

These are all opportunities that will be available to our workers and our businesses if we do continue a responsible policy of economic engagement with China. While a WTO Agreement would present tremendous opportunities by bringing China into the WTO, it's more than just an issue of market share. China's accession into the WTO would lock China into a rules-based international organization and bring them into a legal framework of the international community. In addition to tariff reductions and other market access agreements, bringing China under the umbrella of the WTO would make China accountable for its trade practices and subject to WTO enforcement actions.

I support the administration's policy and am encouraged by recent reports the negotiations will resume in the near future. In spite of recent strains placed on our relationship with China, it is in our overwhelming interest to finalize a WTO Agreement and

maintain our policy of economic and political engagement. For some of the opponents in moving forward with NTR with China and the legitimate concern that we all share with human rights and the progress on religious freedoms, I really think that we have to answer the fundamental question: how can we have the greatest influence in seeing progress in those areas? I contend it's going to be by strengthening relationships. You cannot strengthen economic relationships without also seeing a strengthening in cultural, social, and political relationships. This strengthened relationship is going to afford this country, the United States, the greatest opportunity to influence the behavior and the conditions in China.

Our greatest weapon to advance democracy throughout the world and in China is not our military might. It is in fact our economic might. By moving forward and maintaining a policy of economic engagement with China, we will be successful in seeing progress on an economic front, as well as a human rights front. I encourage this Subcommittee to reject Mr. Rohrabacher's resolution.

[The prepared statement follows:]

Statement of Hon. Calvin M. Dooley, a Representative in Congress from the State of California

Chairman Crane and members of the committee, thank you for allowing me to testify today on the very timely issue of U.S.-China Relations and the possible accession of China into the World Trade Organization (WTO.)

Clearly, the U.S. relationship with China is complicated. Recent events including the bombing of the Chinese embassy in Belgrade, China's reaction to the bombing, and evidence of spying at our national labs have only added additional complexities to that relationship.

We are all in agreement that we must take all steps necessary to protect our national security interests and to ensure that our counterintelligence programs prevent future security breaches. But at this critical juncture, we would be foolish to abandon our economic and political relationship with China, and with it, our ability to influence their economic, political, and humanitarian policies in the future. We cannot afford to embrace a Cold-War mentality that would demonize and isolate China. A policy of economic and political engagement is the surest way to promote U.S. interests in China, to advance democracy and human rights within China, and to enhance future economic opportunities for U.S. workers and businesses.

Since the reestablishment of diplomatic relations with China in 1979, total trade between our two nations has increased from \$4.8 billion in 1980 to \$75.4 billion in 1997. This makes China our fourth largest trading partner. China's economy is growing at an average rate of almost 10 percent a year, making it one of the fastest growing economies in the world.

In order for the United States to remain the dominant economic power in the world, we cannot close the door on the most populous nation in the world. China will continue to have a growing influence on the world's economy. For U.S. businesses and workers to continue to prosper and grow, we need continued economic engagement with China by renewing Normal Trade Relations and finalizing a WTO agreement that will bring China into the international trade community.

The United States has been aggressively pursuing a WTO agreement for the past 20 months, and while an agreement has not been finalized, the deal currently on the table presents tremendous market opportunities for all sectors of the U.S. economy including agriculture, information technology, financial services, and manufacturers. Ambassador Barshefsky and her negotiating team are to be commended for their extraordinary efforts in reaching this unprecedented agreement.

As a member who represents the nation's number one agricultural district, I want to thank the Administration for negotiating an agreement that presents tremendous opportunities for U.S. producers. With respect to agriculture, high Chinese tariffs on nearly all agriculture products would be reduced substantially over the next four years. On beef we would see tariffs reduced from 45 percent to 12 percent, on citrus from 40 percent to 12 percent and on wine from 65 percent to 20 percent. In fact, the deal currently on the table would reduce tariffs for agricultural products to levels below those of most American trading partners. Furthermore, the agreement on the table would eliminate China's export subsidies for agricultural products includ-

ing cotton, rice and corn, which will allow U.S. farmers to compete on a more level playing field and enhance U.S. efforts to curb European export subsidies.

It is projected that by the year 2003, 37 percent of the world food demand will come from China. American ranchers and farmers are the most efficient and competitive in the world. The WTO agreement on the table would move to level the playing field and allow U.S. agriculture tremendous access to the world's largest agricultural market.

Agriculture isn't the only sector that would benefit. The agreement would also open Chinese markets to a number of U.S. industrial products and services including information technology products, automobiles, insurance and financial services. Quotas on information technology products would be reduced from 13.3 percent to zero, and China would agree to adhere to the Information Technology Agreement negotiated in 1996. In addition, the agreement offers U.S. investment in telecommunications and entertainment for the first time, and would subject China to WTO requirements on intellectual property protection to ensure respect for U.S. copyrights, trademarks and patents. Automobile tariffs would be reduced from 80-100 percent to 25 percent. American insurance companies would be able to sell a wide range of products throughout China, as compared to the current policy that limits life insurance sales to Shanghai and Guangzhou. And American banks would be able to operate anywhere in China.

And while a WTO agreement would present tremendous opportunities for U.S. workers and businesses, bringing China into the WTO is more than just a matter of market share. China's accession into the WTO would lock China into a rules-based international organization and bring them into the legal framework of the international community through the WTO. In addition to tariff reductions and other market access agreements, bringing China under the umbrella of the WTO would make China accountable for its trade practices and subject to WTO enforcement actions.

I support the Administration's policy, and am encouraged by recent reports that negotiations will resume in the near future. In spite of the recent strains place on our relationship with China, it is in our overwhelming interest to finalize a WTO agreement and maintain our policy of economic and political engagement. A policy of continued engagement is the most effective tool we have to protect our national security interests and promote our economic and political ideals. I look forward to working with my colleagues on the committee and with the Administration to advance this important policy.

Chairman CRANE. Thank you, Mr. Dooley.
Mr. Blumenauer.

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

Mr. BLUMENAUER. Thank you, Mr. Chairman. I am thinking back to where Mr. Dooley and I were here with you just a couple of weeks ago. We were speculating as to the best way to accomplish changes in the international climate. Repeatedly the discussion turned, as Mr. Dooley and I were talking just a few moments ago, to Cuba, where we had more leverage, more impact potentially, and it has not achieved the desired effect of some of our very well-concerned colleagues.

I commend you for having this hearing today because I feel the Ways and Means Committee can play a vital role in helping guide our troubled relationship with the People's Republic of China. Every Member of Congress is appalled by recent developments in China, the continued struggle for human rights, the situation in Tibet, the theft of American nuclear secrets, alleged interference with our elections, and their clearly less than stellar record of economic cooperation. I do commend our colleagues who are deeply involved in the human rights issue. It does make a difference.

But the harsh words, for instance, that we heard here just a few minutes ago for the business community, I think are sadly misdirected. We set the policy. I think it is time for us to take a deep breath and reflect back. The analogy to Hitler and Nazi Germany? Let's be realistic. I don't think any serious scholar thinks, or concerned observer of the international situation feels, that the Chinese are an active threat to world domination. They are active in their sphere of influence as they have been for millennia. Frankly, the Chinese can be perplexed by our action, given our recent on-again, off-again trade negotiations with them, and to an amazing amount of the world, an inexplicable bombing of their Embassy. Frankly, if they had destroyed one of our Embassies and killed Americans, I doubt that our response would have been as restrained as the response on the part of others.

It is understandable that given the current uncertainty, Americans and a number of people in this Congress are undecided about exactly what our next steps and strategies should be. But we must make no mistake, China is a major force on the world stage. It has more people than any other country. The Chinese population living abroad represent a huge minority in a wide number of other countries. The Chinese have an incredibly strong and ancient culture, and they have the veto power, and they have the nuclear weapon. They have practices that have pre-dated our history for millennia.

Notwithstanding all the problems we have with China, there have been undeniable real advances since Nixon's visit a generation ago. People whose judgement I respect, including people from the community of faith, sketch a picture of a much different country than 40, 25, or yes, even 10 years ago.

It is important for Members of Congress and the American public to put these current controversies in perspective. I mean spying yes, but how many examples do we know of spying that's occurred by our friends and our allies, not just military but industrial contexts, and it's well known to every Member of this Subcommittee that we spy all over the world as well.

Despite our differences, America and China clearly rely on each other. They can assist us with foreign policy objectives. They were a key strategic ally against the Soviet Union, which helped hasten the end of the cold war. They have helped us contain North Korea, the place we are most likely to see American troops engaged in ground war. Both countries have benefited from each other's economic cooperation. There is a reason why we buy all those goods from China.

In the future with our relationship with China, we need to be very clear-eyed and pragmatic. Nothing about extending normal trade relations means we have to be goofy about it, that we can't be firm and strategic. I am certain that this Congress and people in the administration will do so. But I come down unequivocally on the side of the careful management of that policy of engagement. I firmly believe normal trade relations with China should be renewed. I think the Chairman asked the right question in terms of whether or not those strategic objectives are going to be advanced if we were to deny it, or if we were to send some bizarre confusing signal about one House approving, and one House disapproving, or if it has to be subjected to the President's veto. That is the sort of

strange muddle that makes the practice of economic and foreign policy even harder.

I will conclude at that point. I thank you for your courtesy. I appreciate what this Subcommittee under the leadership of you here on the dias can do in helping us continue progress with this important international relationship.

[The prepared statement follows:]

Statement of Hon. Earl Blumenauer, a Representative in Congress from the State of Oregon

The Ways and Means Committee can play a vital role in helping guide our troubled relationship with the People's Republic of China, and I thank you for holding this hearing today.

Every member of Congress is appalled at the developments in China: the continued struggle for human rights, the situation in Tibet, the theft of American nuclear secrets, alleged interference in our election, and their less than stellar record of economic cooperation.

I commend my colleagues who are deeply concerned about and involved in monitoring human rights throughout China. Their words will make a positive difference in the long run for the cause of freedom.

However, I believe it is a mistake to direct harsh words towards the business community and imply they are directing American foreign policy. It is our solemn responsibility in the Congress to set what we believe to be the correct policy toward China, and I do not delegate my vote to anyone.

Also, the earlier statement comparing the Chinese regime to Hitler and Nazi Germany is also misguided. The Chinese have no ambitions to dominate the world or attack the United States, they are very active in their own sphere of influence in Asia.

Instead of indulging in hyperbole, we need to step back and take a deep breath before moving forward on what is undoubtedly the most important foreign policy relationship in the post-Cold War era. The Chinese can be perplexed by our actions, and understandably so, given our recent on-again-off-again trade negotiations with them and what was to them and many others our inexplicable bombing of their embassy. Frankly, if they had destroyed one of our embassies and killed Americans, I doubt our response would have been one of sustained outrage.

It is understandable that given the current uncertainty, Americans and a number of people in this Congress are undecided about exactly what our next steps and our strategy should be. But make no mistake—A China is a major force on the world stage and will continue to be for some time. It has more people than any other country, and Chinese people living abroad represent a huge minority in a number of other countries. The Chinese have an incredibly strong and ancient culture, as well as nuclear power and a veto on the United Nations Security Council. They have traditions and practices that predate our existence and culture by millenia.

Notwithstanding all the problems we've had with China, it is undeniable that real advances have been made since Nixon's visit a generation ago. Tremendous progress has been made in the last 25 years including more individual freedoms for many, increased prosperity, and what we would termed modernization and global connection for hundreds of millions of Chinese. People whose judgement I respect, including those in the community of faith, tell me they see a very different environment in China from what existed 40, 25 or even 10 years ago.

It is important for members of Congress and the American public to put the current controversy into perspective. In regard to the spying, it is an unfortunate fact of life that nations tend to spy on one another. We've had a number of episodes where we discovered our friends and allies conducting both military and industrial espionage on the United States. Our nation in turn spies all around the world; that's no secret as well.

On trade, our relations are in turmoil with our allies. We currently have quite a few conflicts with our friends in the European Union on key trade and economic issues.

Despite our differences, China and America can help each other. China can assist us in our foreign policy objectives. They were a strategic ally against the Soviet Union, which helped hasten the end of the Cold War. They have helped us contain North Korea, the place we're most likely to see American troops in a ground war. Both countries have benefited from each other economically, and the stability we provide by being a reliable market for the Chinese has an invaluable effect. We can

only look forward to more cooperation in the future with China on the economic front if we stay the course.

The most important thing to keep in mind with China is that we have to be very clear eyed and pragmatic. Our choices are to isolate it, ignore China, treat it like an enemy, or, carefully manage how we engage China.

Last month, I sat in front of this very same committee with my colleagues and argued in favor of a more reasoned approach to sanctions reform. I believe we have more tools at our fingertips than just the blunt instrument of sanctions. I believe we can cultivate relationships carefully without pulling the rug out from other countries, as revoking Normal Trade Relations with China would do. The United States attempt to isolate tiny powerless Cuba has not softened their policies and Castro remains in power.

I come down unequivocally on the side of careful management of a policy of engagement. We should be both firm and strategic in our thinking when dealing with China's continuing emergence into the family of nations. We should avoid overreaching in isolating ourselves from China, not so much because of loss of economic opportunity but because of the risk of losing a valuable opportunity to connect with the Chinese. We can help accelerate the evolution of this ancient and proud society in a thoughtful and environmentally sensitive manner. Failing to do this, and thus freezing China into a hostile posture, is not good long-term policy for the United States, it is not good for China and it is not good for the world.

It would be a grave mistake to approve this resolution disallowing Normal Trade Relations.

I cannot stress enough the impact of this committee's leadership. Trade is a language that people understand. This is the first major item in regard to China on the agenda since all the furor broke out over the embassy bombing and the Cox Report. Your guidance and leadership is going to help set the tone for this next important stage of the Chinese-American relationship.

Chairman CRANE. Well, we thank you, Mr. Blumenauer, Mr. Dooley, and Mr. Rohrabacher, and reassure you that this will be a bipartisan effort. We want to do the best job we can.

We respect your differences of opinion, Dana. While we may not agree on everything, I think we agree on most things. But at any rate, we will attempt to move forward in a positive direction, reflecting not Republican or not Democratic positions, but what we conclude may be in the best interest of the United States. So we thank you for your testimony.

Now we are going to bring on our next witness, who is already packed, I hope, and ready to run to the airport. The Honorable Richard Fisher, Deputy U.S. Trade Representative, and Hon. Stanley Roth, Assistant Secretary, East Asian and Pacific Affairs at the State Department.

We will let Ambassador Fisher testify first so that if you have to, Richard, don't hesitate to speak and run. I would like to ask both of you if you will try and keep your oral testimony to roughly 5 minutes, and any written testimony will be made a part of the permanent record. With that, we yield to Mr. Fisher.

STATEMENT OF HON. RICHARD W. FISHER, DEPUTY UNITED STATES TRADE REPRESENTATIVE

Ambassador RICHARD FISHER. Mr. Chairman, I want to thank you and the Members of the Subcommittee for inviting me to testify today. My distinguished colleague and friend, Assistant Secretary Roth and I are here to review with you the administration's reasons for granting an extension of China's normal trade relation status. Assistant Secretary Roth is best equipped to address the diverse and important nontrade specific issues that impact Congress'

decisionmaking on this vital issue. As such, Mr. Chairman, with your permission, I will confine my remarks today to the trade-specific considerations.

Fundamentally, American trade policy in China rests on the vital interests our country has in a peaceful, stable, and prosperous Asian-Pacific region. China's economic isolation during the cold war was vastly damaging to both China and the Pacific area. For nearly 40 years, China's economy was almost entirely divorced from the outside world. Asia's largest nation had little stake in prosperity and stability beyond its borders. Every Pacific nation felt the consequences not only in economics and trade, but in terms of peace and security.

Our Nation's efforts to undo this isolation is a long-term, bipartisan, patient policy, which has continued over nearly 30 years since President Nixon's visit to China in 1972, and the signing of the Shanghai Communiqué. It has included the lifting of the U.S. economic embargo in the midseventies, our initial commercial agreement on mutual grant of normal trade relations, then most-favored-nation or MFN status of 1979 and 1980, a decision, and let me add, Mr. Chairman, in which I participated as a boy during the Carter Administration, the consistent renewal of NTR for the past 20 years, and the market access, textile and intellectual property agreements we have negotiated in the nineties.

The effort has had multiple goals: creation of opportunity for American businesses, working people, and agricultural producers; guarantees of fair trade principles; support for economic reform and the rule of law within China; and strengthening China's own stake in the stability and prosperity of its neighbors. This effort has succeeded over the years. It has increased China's contacts with the outside world, bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us.

China now sees important national interests in its good trade and investment relations with its neighbors. China's constructive approach to the Asian financial crisis may well be at least a partial consequence. Despite numerous trade barriers, some of which have been mentioned today, it has created a market for over \$14 billion in annual sales of American goods exports, and \$3.5 billion in sales and services which we seek to expand.

In summary, Mr. Chairman, the goals of our trade policy in China are to advance concrete American interests. The results our policies have achieved over the years through Republican and Democratic administrations alike, have helped realize those interests. Thus, our trade engagement with China has won bipartisan support in this hallowed chamber for nearly 25 years, and has remained stable throughout periods of warmer bilateral relations as well as in periods of tension.

Renewal of normal trade relations is fundamental to any continuation of this policy. NTR tariffs are the standard tariff rates, now averaging less than 4 percent, which we accord virtually all of our trade partners. Under the Jackson-Vanik provisions of our trade law, however, as you well know, certain economies, including China, are ineligible for these rates unless the President grants an annual waiver. In accord with this law, last Thursday, President

Clinton sent to the Congress this waiver extending NTR to China for another year.

Congressional support for this decision will benefit American consumers. It will also allow American farmers, manufacturing workers, and entrepreneurs to continue to benefit from our existing access to the Chinese market. At the same time, it will allow us to continue our pursuit of a more fair and open Chinese market.

By contrast, Mr. Chairman, failing to renew NTR would severely damage American interests in a number of fundamentally important areas. It would harm the interests of American consumers, and at the same time, threaten markets and consequently jobs and farm incomes for American farmers and businessmen and women and workers. It would likely end our effort to create a more open rules-based China market through the WTO negotiations. It would do immense harm to our friends and allies in the Pacific, directly damaging the Hong Kong economy, which is experiencing a recession, and risking a new economic upheaval in the region, which would badly set back the efforts of South Korea and Thailand and the Philippines and the newly elected Indonesian Government, to recover from the financial crisis of the past 2 years.

As we look to the future with NTR renewed, we have significant opportunities to improve our trading relationship and address many of the issues that were raised by your distinguished colleagues today. Today it is true that China retains high trade barriers and numerous unfair trading practices. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than on science. Key service sectors like distribution, finance, and telecommunications remain closed. These create inefficiencies within the Chinese economy. They slow the process of integration with regional and world economies. They cause frustration and sometimes injury to American farmers, workers, and businesses.

Our principal arena for addressing these vexing trade issues is China's pending accession to the World Trade Organization. To enter the WTO, China must agree on a set of market access commitments, and they must negotiate a protocol dealing with fair trade rules. This is worth underscoring, Mr. Chairman. WTO accession would not be a favor for China. Instead, WTO accession is a means of opening and reforming China's markets, and of holding China to the rules of the global trading system.

Thus, China's WTO accession allows us to address the issues at the root of our trade problems in a comprehensive way. The administration is prepared, as you know, to work closely with you and with the Congress, to secure permanent NTR status for China, but only in the context of a commercially meaningful accession to the WTO.

As to the state of the WTO accession talks, in April, as you well know, we substantially completed a market access package on agriculture, industrial goods and services, as well as fair trade rules. This includes a commitment by China to participate in the most recent WTO Agreements on information technology, basic telecommunications and financial services. Talks must continue on several unresolved market access and protocol issues, however, including many that must be addressed multilaterally.

I would like just to say a couple of words with respect to our progress thus far. The set of commitments that China has made thus far includes four major features. First, it is comprehensive. It embraces agriculture, industrial goods and services, trade barriers, including tariffs and nontariff measures, transparency and others, unfair practices, including export subsidies, forced technology transfer, offsets of local content requirements, and protection against import surges. Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners. Third, and specifically addressing some key points that were made by Congressman Levin and others, it is fully enforceable through a combination of our own trade laws, through WTO dispute settlement mechanisms, and other mechanisms. Fourth, its results will be rapid. On accession to WTO, China will begin opening its market from day one.

The central point to bear in mind is that all of these are essentially one-way commitments by China. China's WTO entry will open export opportunities and strengthen our guarantees of fair trade without requiring special concessions in return. American tariffs, together with our dumping and countervailing duty laws, will remain unchanged after China enters the WTO. Likewise, our export control policies will remain unchanged. Decisions on such policies will not be affected by WTO entry.

The political environment surrounding the WTO talks of course, as we have heard today, is clearly complicated by events outside of trade policy. Most notably, we have held no formal negotiations with the Chinese since the accidental bombing of the Embassy in Belgrade a month ago. Our colleagues in other agencies are preparing a report on that event, which they will review with the Chinese upon completion of that report. Our hope is that negotiations on WTO accession will resume shortly thereafter. The rash of media accusations and public activity in Beijing in the aftermath of Belgrade, together with the release of the Cox Commission report on allegations of Chinese espionage, have also raised tensions.

But this does not alter, Mr. Chairman, the fundamental premise of the approach to trade policy taken by Republican and Democratic administrations, through thick and through thin over the years since the Shanghai Communique in 1972. That is, that we believe that an open, rules-based, and reformed Chinese economy remains in the interest of the United States and in the interests of the Chinese people. We remain committed to a commercially meaningful accession based upon commitments China has made and mutually satisfactory resolution of the remaining issues. We intend to continue pursuing the goal of WTO accession.

Let me just say in conclusion that this is an ambitious goal, and it requires very complex negotiations. We will of course, Mr. Chairman and Members of the Subcommittee, consult closely with you as we proceed. Let me stress in closing, however, that renewal of normal trade relations is central to our ability to achieve any of our goals in these talks. We very much appreciate this Subcommittee's support for NTR in the past. We hope to work closely with you to ensure its renewal once again this year. Thank you.

[The prepared statement follows:]

Statement of Honorable Richard Fisher, Deputy United States Trade Representative

Mr. Chairman, Congressman Levin, Congressman Rangel, Members of the Subcommittee, thank you for inviting me to testify on the President's recommendation to renew Normal Trade Relations with China.

The past weeks have been eventful ones for our trade relationship. Since the beginning of this year, in the context of China's accession to the World Trade Organization, we have carried on highly productive negotiations in all major areas of American trade concern: agriculture, industrial goods, services and rules. China has made significant commitments across the range of sectors and issues of concern to us, but a number of issues remain to be resolved. At the same time, of course, recent events outside the trade relationship—notably the accidental bombing of the Chinese Embassy in Belgrade, the resulting demonstrations in China and damage to U.S. diplomatic facilities, and the release of the Cox Committee report on allegations of espionage in nuclear and other technological areas—have created new tensions in the broader relationship.

Our colleagues in other agencies are addressing the broader US-China relationship. With respect to trade policy in general, and to the renewal of Normal Trade Relations and the WTO negotiations in particular, the Administration intends to remain focused on the long-term commercial and strategic interest of the United States: a more open, transparent and rules-based Chinese market; support for economic reform within China; and the accession, on commercially meaningful terms, of China to the WTO.

This afternoon I will review with the Committee the role of trade in our broader China strategy, the basis on which the President has decided again to renew Normal Trade Relations, and the progress we have made towards China's accession to the WTO.

TRADE IN U.S. CHINA POLICY

Fundamentally, American trade policy in China rests on the vital interest our country has in a peaceful, stable and prosperous Asia-Pacific region. Essential to realizing this interest, as a commercial goal and a complement to our strategic and security policies, is support for China's economic integration into the Asia-Pacific region and the world economy.

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

Our effort to undo this isolation is a bipartisan, patient policy continuing over the nearly thirty years since President Nixon's visit to China in 1972. It has included the lifting of the U.S. economic embargo in the mid-1970s; our initial Commercial Agreement and mutual grant of Normal Trade Relations (NTR; then Most Favored Nation or "MFN" status) in 1979 and 1980—a decision in which I participated as a member of the Carter Administration; the consistent renewal of NTR for the past 20 years; and the market access, textile and intellectual property agreements we have negotiated in the 1990s. The effort has had multiple goals: creation of opportunity for American businesses, working people and agricultural producers; guarantees of fair trade principles; support for economic reform and the rule of law within China; and strengthening China's own stake in the stability and prosperity of its neighbors.

This effort has succeeded over the years. It has increased China's contacts with the outside world, bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us. China's constructive approach to the Asian financial crisis may well be at least a partial consequence. And despite numerous trade barriers, it has created a market for over \$14 billion in American goods exports, and \$3.5 billion in services.

In summary, the goals of our trade policy in China are concrete American interests; and the results our policy has achieved over the years have helped realize those interests. Thus, our trade engagement with China has won bipartisan support for nearly twenty-five years, and has remained stable throughout periods of warmer bilateral relations and periods of tension.

THE ROLE OF NORMAL TRADE RELATIONS

Renewal of Normal Trade Relations is fundamental to any continuation of this policy.

Normal Trade Relations tariffs are the standard tariff rates, now averaging less than 4%, which we accord virtually all our trade partners. It is a non-discriminatory, non-preferential treatment which allows trade to proceed on an equal basis with virtually all our partners. Under the so-called Jackson-Vanik provisions of our trade law, however, certain economies, including China, are ineligible for these rates unless the President grants an annual waiver.

In accord with the law, on June 3rd, 1999, President Clinton sent to Congress this waiver, extending normal trade relations to China for another year. Congressional support for this decision will benefit American consumers and also allow American farmers, manufacturing workers and entrepreneurs to continue to benefit from our existing access to the China market. At the same time, it will allow us to continue our pursuit of a more open and fair Chinese market. By contrast, failing to renew NTR would severely damage American interests in a number of fundamentally important areas.

First, ending normal trade relations would amount to the severing of our trade relationship. It would raise tariffs on Chinese products to a trade-weighted average of 44%. This would make American consumers pay significantly more for goods such as shoes, toys, clothing and small appliances. Manufacturers would see the cost of goods made with Chinese components rise sharply, reducing the competitiveness of our goods in domestic and international markets.

Second, China would likely retaliate against U.S. exports by increasing tariffs and other measures, endangering direct U.S. goods exports valued at \$14.3 billion last year, and services exports valued at \$3.7 billion in 1997 (the last year for which we have figures). This would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life.

Third, ending normal trade relations would also derail our bilateral and multilateral negotiations. As I noted earlier, and as I will explain in greater detail in a moment, we have come very close to completion of a WTO accession agreement with China that would dramatically open Chinese markets to American goods, services and agricultural products. Revoking NTR would be certain to end these talks. It could also lead China to reduce or end enforcement of our intellectual property agreements; refuse to implement our bilateral Agricultural Cooperation Agreement of last April, which lifts long-standing bans on American meats, citrus and grains; and halt much of the human contact between Americans and Chinese, limiting the exchange of ideas and values across the Pacific.

Fourth, these effects in trade would likely be matched by severe damage to relations, in areas from cooperation on drugs and international crime to human rights. And it could threaten cooperation in national security questions such as the four-party talks on Korea and missile sales in the Middle East.

And fifth, ending normal trade relations would badly damage many of our other Asian allies, friends and trading partners. Most deeply affected would be Hong Kong, whose experts have estimated in the past that ending NTR would slash the territory's trade volume by up to \$34 billion, and income by some \$4.5 billion. This would dramatically worsen the economic pain caused by Hong Kong's current recession. At the same time, the economic upheaval created by revocation of NTR would gravely complicate our efforts to end the Asian financial crisis, at the very moment when Thailand and South Korea are beginning to show signs of recovery, and a newly elected Indonesian government will begin its effort to recover from an extraordinarily difficult economic crisis.

Altogether, then, the vote on whether to disapprove Normal Trade Relations is a vote on whether to protect fundamental U.S. interests from jobs and growth at home to stability and return to economic health in Asia. The Administration thus strongly supports renewal of Normal Trade Relations.

U.S. TRADE AGENDA IN CHINA

As we look to the future, with NTR renewed, we have significant opportunities to improve our trade relationship.

Today, China retains high trade barriers and numerous unfair trade practices. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain closed. These create inefficiencies

within the Chinese economy; slow the process of integration with the regional and world economies; and cause frustration and sometimes injury to American farmers, workers, and businesses.

China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which could be an engine of growth in the present financial crisis and in the future.

Our principal arena for addressing these issues is China's pending accession to the World Trade Organization. To enter the WTO, China must agree on a set of market access commitments, and negotiate a Protocol dealing with fair trade rules. Thus, China's WTO accession allows us to address the issues at the root of our trade problems in a comprehensive way. And it is an opportunity to advance broader interests beyond trade:

— As a matter of trade policy, a sound agreement will open Chinese markets to our exports, and give American domestic industries stronger protection against unfair trade practices.

— As a matter of strategy, WTO membership will complement our efforts to maintain peace and stability in the Pacific by helping to advance economic reform within China, linking China's economy more closely with the world's, and strengthening constituencies within China for stability beyond its borders.

— And as a matter of values, WTO principles—transparency, fair and independent judicial practices, peaceful settlement of disputes, the rule of law—are those we hope to advance in China and worldwide.

China, of course, is pursuing WTO membership as a matter of its own national interest. The reforms entailed in a strong, commercially meaningful agreement will help create jobs in labor-intensive fields such as distribution services, make rural and urban economies more productive, and create the competition necessary for innovation and sustainable growth. Thus, as WTO membership offers a short-term source of confidence, it will advance China's long-term goals of domestic economic reform and guarantees of access to world markets.

We believe that to win the full range of benefits, for both the U.S. and China, an agreement on WTO accession must be commercially meaningful, addressing our concerns in a detailed, enforceable and rapid way. This is the principle we have followed in all recent WTO accessions—the most recent successful accessions were those of Latvia, Kyrgyzstan and Estonia, all of which made commercially meaningful commitments in the range of issues of concern to the United States. A weak agreement also would not yield the full potential for economic efficiency and growth in China. Thus, we are committed to a commercially meaningful accession. In the context of such an accession, the Administration is prepared to work closely with Congress to secure permanent NTR status for China.

PROGRESS THUS FAR

While we have not yet reached agreement on such a package, in the past months we have made significant progress toward the goal. In April we substantially completed a market access package on agriculture, industrial goods, and services as well as fair trade rules. This includes a commitment by China to participate in the most recent WTO agreements on Information Technology, Basic Telecommunications and Financial Services. Talks will continue on several unresolved market access and Protocol issues, however, including many that must be addressed multilaterally.

1. MAJOR FEATURES

With respect to our progress thus far, the set of commitments China has made includes four major features:

— It is *comprehensive*, covering agriculture, industrial goods and services; trade barriers including tariffs, non-tariff measures, transparency and others; unfair practices including export subsidies, forced technology transfer, offsets and local content requirements; and protection against import surges.

— It grants *no special favors*. It requires China to reduce its trade barriers to levels comparable to those of major trade partners.

— It is fully *enforceable*. China's commitments are specific and will be enforceable through our trade laws, WTO dispute settlement and other mechanisms.

— And its results will be *rapid*. On accession to the WTO, China will begin opening its market from day one.

One other essential point is that all of these are basically one-way commitments by China. China's WTO entry will open export opportunities and strengthen our

guarantees of fair trade, without requiring special concessions in return. American tariffs, together with our dumping and countervailing duty laws, will remain unchanged after China enters the WTO. Likewise, our export control policies will remain unchanged, and decisions on such policies will not be affected by WTO entry.

2. SPECIFIC COMMITMENTS

Let me also make a few comments on the specific commitments made before and during Premier Zhu's visit to the United States this April.

The *Protocol*, which establishes broad rules and frameworks for trade, creates a product-specific safeguard to address import surges. It also bans forced technology transfer policies for investors, including a commitment to refuse to enforce these provisions in existing contracts. It will ensure that we continue to use "non-market economy" methodology in anti-dumping cases, and take account of China's unique characteristics in subsidies. It will eliminate abusive investment requirements designed to take jobs to China: offsets, export performance, current-account balancing and local content. And it will guarantee China's state trading companies and state-invested enterprises operate on commercial terms, and that their purchases are not subject to any different rules. Again, we continue to discuss several issues, notably the duration of special provisions. While they will not continue in perpetuity, very rapid phaseouts are not acceptable.

With respect to market access, some highlights are as follows:

Agriculture:

China will apply sanitary and phytosanitary standards based on science. It will cut tariffs to an average of 14.5% for our priority items, and bind them at the applied levels. Thus, unlike many countries, China will not have a right to raise tariffs again after it enters the WTO. It will adopt a new and more liberal system of tariff-rate quotas in bulk commodities. And it will agree not to provide agricultural export subsidies—a major achievement in its own right, and a step toward our goal of totally eliminating export subsidies in the next WTO Round.

Industrial goods:

China will grant rights to import and export products without Chinese middlemen, and to distribute products within China. It will cut its tariffs on average for U.S. priority items to 7.1%—a figure comparable to most major U.S. trading partners. This includes participating in the Information Technology Agreement, and deep cuts in everything from autos to wood products, chemicals and construction equipment. And it will eliminate all quotas.

Services:

China has made a comprehensive set of commitments extending from distribution to insurance, telecommunications, architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and more. Talks continue in several areas—banking, audiovisual, securities—but in several of these as well, China has made a set of commitments that already open significant opportunities.

These are a very broad set of commitments. They may well bring opposition from vested interests at home in China. But other countries have made comparable commitments, and China is entirely capable of making them as well. More important, WTO accession on commercially meaningful terms is good for China: it will mean increased employment, economic growth and social stability in the long run.

3. WORK REMAINING

Finally on the WTO accession, the work is not yet done. Some important issues remain unresolved in the services field, and in the Protocol as well. As in all accessions, conclusion depends on the acceding government, and China of course must meet the concerns of other WTO members apart from ourselves. But the issues which remain are limited, and I am confident that the trade policy challenges they raise can be resolved.

NEXT STEPS

At the same time, however, the political environment surrounding the WTO talks, of course, is clearly complicated by events outside trade policy.

Most notably, we have held no formal negotiations with the Chinese since the accidental bombing of the Chinese Embassy in Belgrade a month ago. Our colleagues in other agencies are preparing a report on the event, which they will review with the Chinese on completion. Our hope is that negotiations on WTO accession will resume shortly afterwards. We remain, of course, committed to a commercially meaningful accession, based upon the commitments China has made and mutually satisfactory resolution of the remaining issues.

CONCLUSION

This period is a test for the broader US-China relationship, and the ability of leadership in both capitals to focus on longer-term interests. The WTO accession is a key component of a longer-term strategy to achieve these interests. Completing it, on commercially meaningful grounds, will benefit both countries. This remains a shared view, as we continue the talks with a goal of entry this year.

Thank you, Mr. Chairman, and I will now take your questions.

Chairman CRANE. Thank you, Mr. Fisher.
Mr. Roth.

STATEMENT OF STANLEY O. ROTH, ASSISTANT SECRETARY, EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. ROTH. Thank you, Mr. Chairman. I will be very brief, not only because of your offer to put my statement in the record as drafted, but also to enable you to have some opportunity to ask some questions to my distinguished colleague before he departs for the airport.

Let me simply say that I think I would like to emphasize two points. First, this Subcommittee has made a reputation for itself over the past decade, in giving very measured consideration to the facts, what is and what isn't happening in China, and what are the stakes in the United States-China relationship. That has always influenced your decisionmaking. In listening to some of the presentations, I couldn't help think that there was a large array of, shall we say, overstatements of the current situation in China. No one is going to dispute the fact that we have very serious problems with China, and we have them in a large number of areas, whether it's human rights, trade, nonproliferation, or elsewhere. This can't be swept under the rug, and I don't intend to do so.

But at the same time, to go to the opposite extreme, to make statements that China is the worst abuser of human rights in the world, a statement that I think, considering some of the murderous regimes we see elsewhere, is hard to sustain. If one says it is the least free society in the world, I would reply that I can think of several less free just within my own area of jurisdiction. The suggestion that we have no cooperation with them on any strategic issue cannot be sustained. Just at this time that we are meeting, there is a high level North Korean delegation in Beijing that we believe the Chinese are talking to about the missile issue that is so vital to our own security. I think there have been some statements that simply vastly exaggerate the negative side of the story, and underestimate the positive side of the ledger.

In my statement, I have tried not to rebut the testimony, of course, that I hadn't seen prior to coming here, but rather to lay

out the positive case for engagement, to indicate the benefits that we have already achieved from engagement, and what we hope to accomplish in addition in the future.

The second point that I would like to make I think is even more fundamental, which is: would revoking NTR make the situation any better? Would it help us make progress on the problems that we care about? Or, would it in fact make things worse? I think that this issue was largely ignored in the preceding panel. But, in fact, I think there is no reason at all to believe that if NTR were denied to China, that the human rights situation would get better. It would only get worse, as China would undoubtedly crack down even further. Any ability we have to have dialog with them on these issues would vanish. I think our prospects for achieving strategic cooperation on any of the key regional issues that we're working on—whether it's the Korean Peninsula, South Asia, Persian Gulf, South China Sea, or any of these areas—would be nil in the context of the revocation of MFN or NTR.

So I think we have to ask ourselves not are there problems in United States-China relations, but rather, is this the mechanism for addressing it? I believe that if we want to see more progress with China on a whole host of issues, that we have sufficient policy levers elsewhere, and that NTR is not the means by which we should try to affect Chinese policy on a number of other issues. We are more likely to do harm than good. Why don't I stop at that point.

[The prepared statement follows:]

Statement of Hon. Stanley O. Roth, Assistant Secretary, East Asian and Pacific Affairs, U.S. Department of State

Mr. Chairman, thank you for the opportunity to address the Ways and Means Committee, Trade Subcommittee, on the important issue of Normal Trade Relations—NTR—with China.

INTRODUCTION

Last year when I addressed this topic on the eve of the President's state visit to China, I began my testimony by noting that the hearing was very timely. I then made the argument that engagement with China, and specifically what was then termed "Most Favored Nation" status for China, were in the best interest of the United States. This year, with circumstances clearly much more difficult, I am still persuaded by the fundamental reasoning in favor of engagement with China in general and "Normal Trade Relations" in particular: they are in America's best-interest.

ENGAGEMENT

In his speech of April 7, the President explained the purpose of engagement with China as the means to "build on opportunities for cooperation with China where we agree, even as we strongly defend our interests and values where we disagree. . . . [The purpose is] to use our relationship to influence China's actions in a way that advances our values and our interests."

The President's words were spoken before the tragic accidental bombing of the Chinese Embassy in Belgrade, before the infliction of severe damage on the U.S. Embassy in Beijing by angry Chinese mobs, before the hiatus in our negotiations over China's accession to the World Trade Organization (WTO), and before the findings of the Select Committee regarding Chinese efforts to acquire sensitive information concerning U.S. nuclear capabilities. Clearly, however, the President's articulation of engagement is just as applicable now as the day it was given.

Despite our current bilateral differences, there remains a lot at stake in U.S.-China relations: the U.S. and China continue to have compelling mutual interests in promoting peace and stability on the Korean Peninsula, working to minimize nuclear tensions on the Indian subcontinent, and advancing the economic well being

of Asia. We need to continue serious discussions with the Chinese about the importance of reducing tensions across the Taiwan Strait, as well as potential areas of friction in the region, such as the South China Sea.

China's cooperation is essential to keep under control technologies used in the production of weapons of mass destruction and their delivery systems. China has joined us in the Nuclear Non-Proliferation Treaty and the Chemical Weapons Convention, and has said it will soon submit for ratification the Comprehensive Test Ban Treaty. It has committed to provide no new nuclear assistance to Iran, joined a major international nuclear suppliers group (the Zangger Committee), and put into place comprehensive nuclear export controls. The U.S. and China have agreed that we will not target nuclear weapons at each other, and China has agreed to actively study joining the Missile Technology Control Regime.

We and China should continue to cooperate on economic issues in APEC and other regional fora. Engagement helped solidify China's constructive response to the Asian financial crisis. China maintained its exchange rate at a time when other currencies in the region were extremely vulnerable and has accelerated the reform of its own troubled financial sector.

Some might argue that China would take all of these measures regardless of U.S. policy, regardless of engagement, simply because these steps are in China's self-interest. I disagree. Persistent, principled, and purposeful engagement with China's leaders and China's people enables us to identify, and work towards, shared goals. As a result of our engagement we have been able to persuade China to work with us on an increasing number of important issues, some of which had previously been contentious such as South Asia, the Persian Gulf, and Nuclear Non-proliferation. China is acting on the basis of its self-interest, but we are helping to define that interest in ways that complement U.S. objectives.

Earlier I mentioned some of the changed circumstances surrounding this NTR hearing and that of last year. Clearly, the issue of Chinese efforts to acquire sensitive information regarding U.S. nuclear capabilities is a significant factor. In this context, the question is whether abandonment of engagement with China, or specifically denial of NTR status, is the best and most appropriate response? It is not. Abandoning engagement with China will not reduce Chinese efforts to acquire sensitive information. We didn't have an engagement policy with the former Soviet Union but we certainly had a great deal of espionage.

The effective response is better security. In this regard President Clinton has launched a comprehensive effort to address U.S. vulnerabilities. Punishment of the Chinese for their activities by disengaging, or denying NTR status, would come at a very high policy cost to the U.S.—we would no longer be able to actively pursue U.S. interests with China as we have over the past decade—and at a very high economic costs to U.S. businesses and consumers.

THE MERITS OF NTR

In his statement last week regarding his decision to seek renewed NTR status with China, the President urged this Congress to maintain NTR with China because renewal will promote America's economic and security interests. "Normal trade relations" is, of course, a status we have extended to all but a handful of nations, e.g. Cuba and North Korea.

Exports to China and Hong Kong support an estimated 400,000 U.S. jobs. Over the past decade, U.S. exports to China have more than tripled to \$14.3 billion and China has now become our fourth largest trading partner. These gains have been fostered by extending NTR, or at the time "most favored nation," status to China. A decision not to renew NTR could cost U.S. consumers up to half a billion dollars more per year in higher tariffs on shoes and clothing alone.

And, although I have promised to leave the primary analysis to my colleague, I cannot help but touch on the potential impact on U.S.-China WTO accession negotiations. Assuming that China agrees to the necessary commercial changes to join the WTO and thereby becomes subject to standard international trade rules and opens its market, U.S. companies and workers could develop major new export opportunities. By contrast, refusal to renew NTR would effectively derail efforts to finish the necessary WTO negotiations. My colleague this afternoon, Amb. Fisher, is, I know, an excellent negotiator, but I would not want to be in his shoes if this Congress chooses not to renew NTR for China.

Refusal to renew NTR would also undermine those in the Chinese leadership who have advocated better relations with the U.S. As the President recently noted, we must remember that the debate we are having about China today in the United States is mirrored by a debate going on in China about the United States. We have

an opportunity to influence the course of China's development in the next century. We should use it.

Refusing to renew NTR with China would also have repercussions on other Asian economies already battered by the 1998 Asian Financial Crisis. Hong Kong and Taiwan would be particularly susceptible. With contracted investments of more than \$30 billion in the mainland, much of it in export industries geared towards U.S. consumers, Taiwan investors would take a serious hit if normal trade relations status with China were revoked.

More than 40% of U.S.-China trade goes through Hong Kong's port. Refusal to renew NTR, clearly a serious disruption to US-China trade, would therefore severely damage Hong Kong's well being. In fact, Hong Kong authorities estimate that refusal to renew NTR with China would slash Hong Kong's trade by up to \$34 billion and reduce its income by \$4.5 billion. These figures do not incorporate any additional damages which might be the consequence of retaliatory Chinese actions. Clearly, such blows would undermine Hong Kong's ability to maintain its open economy, civil liberties, and way of life. This would be contrary to the U.S.'s fundamental policy to support Hong Kong's autonomy.

CONCLUSION

Each year when this subcommittee has reviewed the renewal of NTR—previously MFN—status for China, the bilateral relationship has experienced formidable problems in such areas as Taiwan, trade, human rights, and non-proliferation—to name only a few of the familiar issues. Each year this subcommittee has recognized that not renewing NTR status would only make the existing problems worse.

This year, there are tough problems in our bilateral relationship with China. Nonetheless, continued engagement with China is the best path, as is renewal of NTR. A clear-eyed strategy of principled, purposeful engagement with China remains the best way to advance U.S. interests.

Chairman CRANE. Thank you, Mr. Secretary.

Ambassador Fisher, the Congressional Research Service recently completed an analysis of the potential gains for the United States exports that would result from Premier Zhu's April 8th offer on a WTO Agreement. The potential commercial gains for U.S. firms and workers are beyond what many of us believed were possible to get from China. How locked in are the Chinese to these possible commitments?

Ambassador RICHARD FISHER. Mr. Chairman, we did note that study. Indeed, the numbers are impressive. I noted that the reduction in Chinese tariffs, according to that calculation, would generate \$11.6 billion in additional United States exports, I presume annually, and \$2.4 billion in increased United States investment in China. As you have pointed out, the discussion we had and the point where we had reached on April 8th is broad, comprehensive, all-encompassing.

As I mention in my testimony, we have some unfinished business. We wish to pursue that unfinished business and resolve this issue. Again, we are waiting for a signal to engage in those discussion. Once we do, we will continue down that path.

Chairman CRANE. Besides the few market access issues, such as banking, securities, and audio-visual services, that weren't resolved during his visit here, what are the other issues that must be negotiated before China's WTO accession would be complete?

Ambassador RICHARD FISHER. Well, Mr. Chairman, we have the so-called protocol issues. These are what established the rights and obligations that are enforceable through WTO dispute settlement procedures, in addition to a continuation or completion of the mar-

ket access issues that you have mentioned. Again, our objective here is to put these in place so that we may proceed.

An important point to underscore here, however, is that we do not wish to move backward, we wish to move forward. We have reached a point of agreement as of April 8 on a vast majority, in Premier Zhu's words, 99 percent of the agenda in terms of the market access aspects of this potential agreement. A point I wish to underscore to you as we have talked about to this Subcommittee before is that what we need now at this juncture is to reengage in this discussion and move forward, not backward from that point.

Chairman CRANE. One of the questions often raised about China's WTO accession is whether China can be counted on to live up to its commitments, and how will we monitor and enforce China's WTO commitments?

Ambassador RICHARD FISHER. Mr. Chairman, first of all, I do wish to underscore what I said in my testimony. That is, that the full range of our United States laws are still available to us, even upon WTO accession, as long as those laws of course are in keeping with the rules of the road, which they are. The first objective we have is to obtain clear, specific obligations on the part of China that will be enforceable in dispute settlement procedures. We then will of course use the WTO dispute settlement process to undertake any action that would be necessary if they were to violate the rules of the WTO. I might add also that additional mechanisms are under consideration to include in China's WTO accession protocol. These include perhaps a transitional review mechanism that would provide a forum for monitoring China's implementation of its commitments. Again, on these and all issues, as we proceed, we will consult very closely with the Congress, because we know that this issue of enforceability is critical.

We have said repeatedly, and we believe firmly, that in addition to having the force of U.S. law, it is important to have in essence, the force of the laws of 130 other nations being brought to bear here. The odds of enforcing agreements that are reached with the Chinese are much greater in its multilateral context and add the particular muscle which our own laws apply.

Chairman CRANE. Secretary Roth, I have always believed that getting China into the WTO would represent a huge success for Taiwan because WTO member countries have agreed that the two countries should enter the WTO together. How important do you think WTO membership is for the future position of Taiwan?

Mr. ROTH. Mr. Chairman, I think you have characterized the situation accurately. As you know, the administration's policy is to totally consider the applications of China and Taiwan on their merits, and that we have said and we mean, that whenever Taiwan is ready to join, we believe its application should be considered.

Having said that, there is also the question of pragmatism, getting a consensus, which is how you get into the WTO. In that sense, we believe that regardless of the United States position, that there have been very real obstacles to Taiwan getting in ahead of China, regardless of when it is ready. So I think what you point out is simply to state the obvious, which is that if China gets in, it obviously makes it much easier for Taiwan as well.

But I want to make it absolutely clear that from the perspective of the U.S. Government, as soon as Taiwan is ready, we support its accession.

Chairman CRANE. I would imagine that returning home without a successful WTO deal after he had revealed his willingness to make so many meaningful concessions had to be a very difficult experience for Premier Zhu. How are he and other Chinese trade officials faring politically in light of the administration's unwillingness to conclude a deal at that time?

Mr. ROTH. Well, leaving aside your choice of words, and I don't know that I would say "our unwillingness to conclude a deal" as opposed to the right deal wasn't yet available to us, but leaving that aside, I think we should be very careful not to exaggerate the implications for Premier Zhu. I think there has been a lot of speculation about him being seriously damaged. But when we look at the information, we don't see any indication that he is under fundamental challenge back home.

I think the more important point is whether we can in a sense obviate this discussion by clinching the deal. So the administration has been anxious to get back to the negotiating table as soon as possible, and to try to finalize the negotiations, something which I know my colleagues at USTR are very anxious to have take place. The problem there has not been on the U.S. side. We have been willing to negotiate immediately almost from the day the delegation went home.

Chairman CRANE. Are you worried that opposition is building in China against undertaking the probably painful economic reforms that will have to be made for China to join WTO?

Mr. ROTH. Thus far, I must say that I have been more struck by the commitment of Premier Zhu and President Jiang to carrying out a very broad range of economic reforms, and that this goes well beyond just the trade issues involved in the WTO talks, but in terms of the privatization of state economic enterprises, some banking reforms, getting the military out of the economy, and the like.

I think as a matter of common sense, it's obvious that when you undertake as many reforms as they have simultaneously, that there has to be some opposition to this. We would be foolish to think that there wasn't. But at this point, we have no indication that the government is undertaking a retreat from this policy of economic reform across the board.

Chairman CRANE. Very good.

Mr. Levin.

Mr. LEVIN. Thank you. I think your testimony has helped make a point that needs to be underlined. That is, even if there had been no Tiananmen, if there had been no Cox-Dicks report, if there had not been an accidental bombing—and I disagree with those who say the United States would have responded to an accidental bombing like the Chinese did. I think their reaction was reprehensible. But even if none of these events had occurred, there still would be an intensity about this issue. I hope we can take it out of the humdrum. We are talking about integrating into a market-based, rules-based, international organization the largest country in the world with the largest nonmarket, nonrules-based economy. That is a big

set of issues and we need to understand the ramifications for it and build some intensity into this discussion, avoid the polarization.

China is different. We talk about what has been negotiated and we talk about how we are going to enforce agreements. We are trying to enforce through the WTO Agreements in an economy, in an economic structure, that has virtually no transparency, very little flow of information. So if American entrepreneurs or American organizations here, business or labor, want to find out what is going on, it isn't easy. So just saying integrating China into the WTO is going to all of a sudden solve the issue of enforcement is just misguided. And that is why you have been negotiating some additional structures.

And the same about it is not an open market. It surely isn't in terms of capital or in terms of labor. And that is the basis of the concern, a lot of the concerns. Because China as a nonmarket, both capital and labor, nonrules-based economy is not only a subject for our goods, an object for our goods, a consumer opportunity, but it is also going to be increasingly a competitor. We found that the first 2 months of this year in terms of their influx of steel. It was not shoes; it was steel. And it was bought. It was a good product, apparently.

So maybe it has been a mistake for us to talk about commercially viable. We should really be talking about an economically viable agreement in terms of businesses and workers in this country. And I am optimistic we can proceed and reach an agreement if we are clear about this and intensive about this.

And, Mr. Fisher, where you talked—and I know it wasn't the main subject of your topic—about the work remaining, let no one think this is just ho-hum, humdrum. Protocol sounds very unimportant or kind of routine, but these issues include discussions over safeguards in the event that this non-rule-based, still nonmarket economy ends up competing with our businesses and workers in a way that is basically harmful to our economy.

And one other thing. We have had a lot of discussions and I am just urging you to try to illuminate this so that we can have an intelligent discussion. On human rights, you heard the discussion here. And, clearly, we are going to have to find a way, an alternative mechanism—I don't think NTR effectively in this regard—we are going to have to find alternative mechanisms to press the Chinese on human rights issues. So let us now and for the rest of this hearing have some intensity, some fervor about this, about the problems as well as the opportunities. Because this is a big deal, to use the language that we all understand.

Now let me just ask, then, just one question if I might as we talk about proceeding further. What do you think is the status of what we have negotiated so far? The United States issued a document. Is this, as far as you are concerned, the starting point for further negotiations or are we going to go back and renegotiate where we once were?

Ambassador RICHARD FISHER. Let me make two points here, if I may, Congressman. And, first, let me say that I agree with your general statement and your plea. This is a big deal, hypercomplex, and we have to keep our eye on the ball in terms of what we are trying to achieve here and it goes beyond just establishing trading

rights with a country. It deals with all the other aspects of putting together an economy that is driven by the rule of law, that is transparent, where we can distribute our products once we establish trading rights, and so on.

But, addressing your specific question, in terms of what we achieved in April. First, we did sign an agreement. That is, Ambassador Barshefsky and Madame Wu Yi, who is a State councilor, concluded and signed a bilateral agreement on agricultural cooperation which addressed the sanitary and phytosanitary issues and barriers to the U.S. exports of citrus and meats and Pacific Northwest wheat. That has been done.

Second, we reached a market-access agreement on the majority of the market issues affecting industrial goods and agriculture and services. We do, as you pointed out, have some unresolved issues. Congressman Crane pointed out in banking securities and audiovisual services and other areas.

And the April 8 agreement is subject to verification and rectification. That is, we have to go through the schedule and have a discussion to make sure that we got every point right. We have released to you and to other Members of both the House and the Senate a 17-page summary of where we were as of April 8. And, again, I want to underscore that we will not move backward from that point. We move forward from that point. We move forward from that point and not backward, in answer to your question.

Mr. LEVIN. Thank you.

Ambassador RICHARD FISHER. We still have to resolve these other issues and we have to finalize the discussion on the protocols, but we don't view that as a point to move backward from but rather to move forward from.

Mr. LEVIN. All right, then, you need to, if I might say so—and we have talked a lot about this—describe for this Congress and the American public the issues that are left to be resolved. When Premier Zhu was here, I think it was an effective bargaining point to talk about 99 percent there, but—

Ambassador RICHARD FISHER. His description.

Mr. LEVIN [continuing]. But those issues that are outstanding are important issues that need to be resolved and we have a considerable ways to go and that needs to be understood within these halls and also by the American public. Because my—and I will finish with this—I am convinced that the majority of my constituents—and I think this is going to be true for most Members—in the end, when permanent NTR comes up, if it does—and it will have to if there is an accession agreement—they will ask the question: As important as these other issues are, what is it going to mean for my standard of living, in the short term and the long term? And we have to be in a position where we can stand up and not just repeat the usual platitudes or whatever they are, but point out why this will work most likely, economically, to the benefit of the American public in the short and the long term.

So don't be inhibited about talking about the work remaining to be done because, otherwise, we are going to be talking about all the other issues except the trade, economic issues that are the heart of these negotiations and I think, in the end, will determine, more than anything else, the votes in this institution. Thank you.

Ambassador RICHARD FISHER. Thank you, Congressman.

Chairman CRANE. Mr. Fisher, we know your time constraints, so you keep an eye on the clock and you let us know when you have to run to the airport. And, with that, I yield to Mr. Houghton.

Mr. HOUGHTON. Well, I will keep an eye on the clock and thanks very much for your testimony. I have the Protocol, I have listened and read your testimony, and I have no questions.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Ambassador, always good to see you and I thank you for your eloquent testimony. I wondered whether you can tell me whether there was any difference in terms of the support and the emphasis on trading with Communist China and the embargoes on this little Communist country called Cuba? I mean, when you talk about encouraging trade and stabilizing government and helping people and all of the great things America stands for throughout the world, it just seemed to me that if it is good for 1 billion people in China, that it makes a lot sense for about 8 million in Cuba.

Well, you don't really have to respond to that—

Ambassador RICHARD FISHER. I hear that. [Laughter.]

Mr. RANGEL. It is just that the same way you have a handful of people being political as it relates to Cuba, we have more than a handful of American businesspeople being political as it relates to trade with China. And when the President, Republicans, and Democrats make a political decision, it is very difficult to undo those things. But it is difficult for us to explain why we are trading with Vietnam, and China, but we are afraid of the Communist menace in Cuba.

Having said that, one of things I assume the administration would support is that expanded trade means expanded jobs for Americans and that China is a classic example. I assume, though, you recognize that with trade, with lower wages, with working conditions that are substandard or at least different from ours, that there has been a lot of displacement in the United States. My colleague mentioned steel, but certainly in the textile and apparel industry. Do you have any records that would indicate how many jobs we gained? How many jobs we have lost? And, more specifically, the type of jobs that this progress has cost us?

Ambassador RICHARD FISHER. Mr. Rangel, that is always a very difficult calculus. We do believe that, presently, even with the low levels of market penetration we have achieved in China, that some 400,000 U.S. jobs are dependent on the current market access that we have. It is hard to quantify, although the Subcommittee has made some efforts to quantify the numbers that will result from a WTO accession by China. But the effort here is to reduce the trade deficit, to expand our penetration of that market, to sell more products made by American workers, farmers, and service providers into that economy.

Mr. RANGEL. But is there any way—

Ambassador RICHARD FISHER. But, in terms of the specific numbers, Congressman—

Mr. RANGEL. Well, you know that certain industries have been hit and hit hard by Chinese textile manufacturing and by the apparel industry. And I don't think anyone challenges that, with

progress, you find these types of displacements. But we have to know, one, which jobs are being lost but, more importantly, which jobs are being gained to make a case as to why expanded trade is good for all America and not just one small segment of it. And this is particularly so as it relates to—what do they call those state factories?

Ambassador RICHARD FISHER. State enterprises.

Mr. RANGEL. State enterprises. Are there millions of Chinese that work in the state enterprises?

Ambassador RICHARD FISHER. There are, by some estimates, 100 million Chinese that work in state-owned enterprises and they are enterprises which the reformists within China—

Mr. RANGEL. The what?

Ambassador RICHARD FISHER. They are enterprises in which the reformists in China are seeking to rationalize. They are extremely inefficient.

Mr. RANGEL. Yes, but my point is that these factories have nothing to do with the free marketplace. Right? I mean, this is their unemployment compensation. This is their welfare program. This is the antirevolution program. And I don't see how, when we talk about reviewing the standard of compensation and the standard of working conditions, we are not even saying that we intend to dismantle those factories, those, quote, "enterprises" are we?

Ambassador RICHARD FISHER. Actually, we deal with this specifically in what is known, as Mr. Levin said, it sounds obscure, but the protocol aspects of this WTO discussion.

Mr. RANGEL. That is good, but I mean—

Ambassador RICHARD FISHER. And let me just talk to that point—

Mr. RANGEL [continuing]. We are not saying that they are going to have to dismantle those in order to get our support to go into the WTO are we?

Ambassador RICHARD FISHER. Yes, we are saying that they will need to ensure that these enterprises act on a commercial basis.

Mr. RANGEL. When? What year?

Ambassador RICHARD FISHER. This is part of their accession agreement to the WTO.

Mr. RANGEL. You mean—

Ambassador RICHARD FISHER. They have agreed that—

Mr. RANGEL [continuing]. That these factories, these enterprises, will operate on the same way that democratic countries expect the free enterprise system to work? With labor standards and minimum wages and things that we Americans know what it is about? That, until they do that, we will not support their entry into the WTO?

Ambassador RICHARD FISHER. What I am saying, Congressman Rangel, is that, as part of the Protocol aspects of the WTO accession, China has agreed that it will ensure that state-owned and state-investment enterprises will act like commercial enterprises, that is, make purchases and sales based solely on commercial considerations such as price and quantity and availability and marketability, which they do not do now. That they will provide U.S. firms and foreign firms with the opportunity to compete for sales and purchases on nondiscriminatory terms and conditions. And that

they will not influence these commercial decisions, either directly or indirectly, unless it is in a WTO-consistent manner.

Now I am not telling you that they are saying they will pay the same minimum wage as the United States and so on. So it is not as complete and comprehensive as you requested.

Mr. RANGEL. No, I didn't mean, for instance, to suggest that, but I visited China many times and they have never indicated that they intend to commercialize these institutions that are basically not there for productivity but are there to satisfy the great unemployment that they have in China and that they consider this to be a social program, not a free enterprise program. And our labor leaders are concerned that the more we support a subsidized work force, much like we do in our prisons, that we will not be able to compete against that.

Is there a section in the Protocol that you can direct that I can get more information?

Ambassador RICHARD FISHER. Yes, sir. May I suggest, respectfully, Congressman, in the interest of time, that I send you that section.

Mr. RANGEL. Yes.

Ambassador RICHARD FISHER. So you can see where we stand on that issue and I would be happy to do so.

[The information was forwarded to Mr. Rangel and is being retained in the Committee files.]

Mr. RANGEL. Thank you. Thank you, Mr. Chairman.

Chairman CRANE. You bet. And let me just add a footnote to what you were talking about and that is I understand that there is a major effort underway right now to start importing labor since we have been at full employment for about 3 years.

I yield now to Mrs. Johnson.

Mrs. JOHNSON of Connecticut. I thank you very much, Mr. Chairman. I have just one question. It is my understand that in the agreement as it now stands that, after 5 years, the special mechanism that we developed for the pricing of products in nonmarket economies will expire. This is of some concern as it would make enforcement of our antidumping laws and other mechanisms that we have on the books to enforce fair trading protocol would be very difficult to enforce. Is my understanding of that point correct?

Ambassador RICHARD FISHER. Congresswoman, the duration of this provision remains under discussion. We have not reached agreement as to its duration. We have agreed that we will be able to maintain our current antidumping methodology, which treats China as a nonmarket economy, which is, I believe, what you are referencing, in future antidumping cases. Moreover, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account when we identify and measure any substantive benefits that may exist.

That much we have established. What we have not established, Mrs. Johnson, is the duration period.

Mrs. JOHNSON of Connecticut. It does seem to me that duration is not the issue, that market structure is the issue and, perhaps, the phasing-out of this could be paired with the phasing-in of transparent pricing mechanisms in China. But I am glad to know there isn't a 5-year limit and I would hope that there wouldn't be.

Ambassador RICHARD FISHER. And we would be happy to, again, discuss this further with you.

Mrs. JOHNSON of Connecticut. Thank you.

Ambassador RICHARD FISHER. Again, I am a little worried about missing my plane, to be honest with you. Although I don't want to be disrespectful.

Chairman CRANE. You are not being disrespectful, you are being properly respectful by making your son's graduation. So you run to the airport, unless, Richie——

Mr. NEAL. I have a question for Mr. Roth.

Chairman CRANE [continuing]. You or Xavier have specific questions for——

Mr. NEAL. Mr. Roth.

Chairman CRANE [continuing]. Ambassador Fisher?

Mr. NEAL. No, I have a question for Mr. Roth.

Chairman CRANE. OK. Well, then, you are excused and thank you for your testimony.

Ambassador RICHARD FISHER. Thank you.

Chairman CRANE. Have a good graduation ceremony.

And, with that, then, I would yield to Mr. Neal to pose a question to Secretary Roth.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Roth, I have been a consistent supporter of normal trade relations. You said that if we were not engaged in normal trade relations with the Chinese or we did not have what is formally known as MFN, that human rights conditions would be far worse in China. Yet if you listen to the testimony earlier this afternoon of Mr. Frank, Mr. Rohrabacher, and Mr. Wolf, I think the consistent theme that they offered was that, in their judgment at least, human rights conditions in China are indeed worse than they were a few years ago, even though we are engaged in the process of attempting, once again, to elevate normal trade relations.

Mr. ROTH. I don't think there is a contradiction between those two things. I think that the human rights situation, unfortunately, in China, we have seen, has gone up and down over the years, depending on internal developments within China. And I would like to emphasize that I think a lot of what is happening in China right now has nothing to do with United States policy and a lot to do with internal political dynamics within China itself.

At the same time, I think that it still remains clear that, as bad as the current human rights situation is, it could certainly get significantly worse and that aspects could get a lot worse. This includes things such as: further rounding up of dissidents; longer prison sentences; denial of additional access from the outside community to some of the people within China; denial of access to areas such as Tibet, where we have had some delegations allowed to go. China could withdraw from its commitments to ratify the two covenants that we have talked about.

So, again, without any way trying to suggest that the human rights situation is satisfactory in China, I think it is just a matter of common sense that it could be still be far worse and I think that we have no prospects of getting better progress for it if we revoke NTR.

Mr. NEAL. What about Mr. Wolf's assertion today that normal trade relations, if once again passed by the Congress, will only prolong the current regime in China? Is there any basis in fact to that or would you challenge that statement?

Mr. ROTH. I would certainly challenge that statement simply by saying that I think we have seen a pattern, throughout Asia and in some other regions of the world, where economic modernization has ultimately led to a process of political modernization. Not in the kind of straight-line fashion that we would like or in a predictable fashion so that I could tell you in x years China will be democratic like us, but I think that we have seen already enormous changes in Chinese society. And I think back to my first trip to China 19 years ago and what it looks like now, it is not the same China. And a lot of that relates to the economic modernization that has taken place and China's exposure to the outside world. And so I think that, in fact, it is the opposite of what Mr. Wolf suggested.

Mr. NEAL. You are arguing that reform in the marketplace will generate greater demand for democratic reforms as well.

Mr. ROTH. Over time.

Mr. NEAL. Thank you, Mr. Roth.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Actually, I just have one question, I believe, and perhaps a couple of quick comments. First, my recollection of the hearing we had not long ago on the whole issue of unilateral sanctions probably has a lot of relevance to what we are discussing here today, although we are not talking about full sanctions upon China and we are talking more about whether we reinstitute normal trade relations. Certainly, some of the same aspects of the discussion on unilateral sanctions applies to this discussion as well.

And, given that, it seems to me that, since we are such a high-tech, short attention span society when we operate under these 20-second sound bites, if you look at it from that perspective, the relationship with China can, at times, look very bad. We have a \$57 billion trade deficit, if you believe the numbers that we have. The human rights situation, the espionage, all of those things, obviously, make it difficult for us, in 20 seconds, to make the relationship between the two countries seem healthy.

But one of the things I have discovered in this Subcommittee is that you have to try to look beyond some of that and I would be interested in asking you a question, hoping that you can give me a response that, to the degree possible, reflects a neutral position or an objective observation of this. If you look at the fact that we have a \$57 billion deficit in our trade with China and you extract only the fact that, in terms of imports from China, we provide them with some \$71 billion worth of capital resources, funding, dollars for the goods that they provide us, you would have to admit that there is a case to be made that that is real leverage. That could be a stick that could be used to try to force China to change its ways in other matters.

If you could give me a quick comment there, because then I would like to ask you about what happens, actually, if we were to go to that stage of actually closing those doors, economically, and would we really find that we would have that big a stick?

Mr. ROTH. It is an awfully hard question to answer with a pat formula. I think you have to answer it at several different levels. I think, one, you have to answer it at the systemic level. What does it mean when we stop, when we change from our commitment to open-trading regimes that has been our global policy and that has enormously benefited the United States overall and, instead, go to a situation where we try to use this kind of leverage, whether it is against China or some of the other countries with which we have large deficits. Is that going to get us into a pattern of tit-for-tat retaliation with other countries and cause the disintegration of the current regime that has been so beneficial. So I think you have to deal with it on a global level first.

Second, I think you have to deal with it on the China-specific level and ask yourself the question: Is China necessarily going to allow itself to be pushed around? Is China going to be an economic determinist and, for the sake of our access to markets, do anything that we ask? Those of us who have seen Chinese nationalism at work would suggest that the answer to that is no. We have some leverage but to make it into the categorical assertion that we can use our market access to get anything we want from China, I think, simply won't hold up in terms of the facts.

Mr. BECERRA. And that is probably where the example that Mr. Rangel brought up is very telling. Those who support this economic embargo on Cuba feel that there could be some success there, yet, over the last 40 years and for a country as small as it is, both in terms of population and its economic ability, it hasn't caved in to some of these United States demands, what would cause us to believe that a country that is 4 times as large as we are populationwise and, probably, in the next 20 years, will surpass us in its economic productive capacity, would yield as well?

Let me ask you a couple of quick questions in that regard to this discussion. I believe that I have read that China is the second-largest recipient of foreign investment after the United States. And if you were to categorize it only with developing countries—which it is—it would be the largest recipient of foreign capital investment in the world. It would seem to me that, given that what they are importing from us are things like aviation—actually, let me look at this chart here to be specific—electric machinery, power generation, air and spacecraft, if we were to stop trading those products, sending those products to China and stop them from sending over to us the toys, the electrical machinery, the footwear, the power-generation equipment, would China be closed to all markets to obtain those same goods and would China be closed to its markets to sell its goods?

Mr. ROTH. I think it is obvious that if we blocked what we were willing to sell, others will be more than happy to move into the breach. And I think it is equally obvious that if China feels that we have barred access to our markets, they could decide to punish us in terms of whom they decide to purchase from. To use your example of aviation, I think it is pretty obvious that we don't have a monopoly on that market. So I think we have to be very careful in terms of our actions and the retaliation it might provoke.

Mr. BECERRA. Thank you. Thank you, Mr. Chairman.

Chairman CRANE. Thank you. And we want to express appreciation to you, Ambassador Roth, for your testimony. And let me add just a footnote to what you were asking about, Xavier. Our population in our entire hemisphere, North and South America and Central America, is equal to about two-thirds of the population of China. A big market.

Mr. BECERRA. And, by the way, Mr. Chairman, if I could just—for the record, you made a comment that I hate to see go without some response. You stated that we have been operating for the last 3 years at close to no unemployment and that we are close to having to import workers. I would be very cautious about that because that 4.2 percent unemployment rate still translates to about 6 million people in this country who are unemployed. They would not see that as no unemployment and certainly I hope, before we get to the stage of thinking of importing people to do the work in this country, we would look closely to the folks that are still seeking work or those we are going to kick off the welfare rolls before we start talking too seriously about the fact that we have near-full employment.

Chairman CRANE. Yes, that 4.2 percent figure is the government figure of what is defined as full employment.

All righty. I would now like to invite our next panel of witnesses and I am going to yield to colleagues here on the Subcommittee who have special parochial interests in introducing some of our distinguished panelists. And I would yield first to my good friend and colleague from New York. Is that the State? New York?

Mr. HOUGHTON. That is right.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you very much, Mr. Chairman. Not a parochial interest, an international interest. I would like to introduce George Fisher. He is sitting down here to my right. He is chairman and chief executive officer of Eastman Kodak, one of the outstanding business people in the country and is a distinguished citizen for a variety of reasons, one of them being that he lives in upstate, rather than downstate, New York.

Mr. GEORGE FISHER. Thank you, Mr. Chairman.

Chairman CRANE. And introducing our next panelist is our good friend from I think also that little State up east there. Mr. Rangel, you want to welcome our next panelist?

Mr. RANGEL. Thank you, Mr. Chairman. While all of the panelists are welcome, being from New York City, I want to particularly welcome two, Harold McGraw, who is the president and chief executive officer of The McGraw-Hill Companies in New York, as well as my old friend Sy Sternberg who is the chairman and president and chief executive officer of the New York Life Insurance Company. As I said earlier I am concerned with the good jobs we have lost, as we see in New York City, but I also believe it is important one talk, as this panel may, about some of the jobs that we have gained.

Thank you, Mr. Chairman.

Chairman CRANE. And next to welcome a panelist is our distinguished colleague from Michigan, Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman. I also would like to welcome Mr. Steve Van Andel, the chairman of Amway Corp. of Ada,

Michigan who will be testifying on behalf of the United States Chamber of Commerce. Thank you.

Chairman CRANE. And I also would like to welcome Steve because I served on the board of trustees at Hillsdale with his dad. A remarkable gentleman and he is part of Steve's history, a major part, in the development of Amway and I think Steve in his testimony comments that it started in the basement, didn't it? And built up to a \$7 billion enterprise.

And I would like to welcome also two other panelists and that is George David, chairman and chief executive officer of the United Technologies Corp., and Frederick Smith, chairman and president and chief executive officer of FDX Corp. And, with that, gentlemen, will you proceed in the order that you are listed on the panel? Mr. Fisher, you kick off. And try and keep your oral testimony, if you will, to 5 minutes. Any written testimony will be made a part of the permanent record.

STATEMENT OF GEORGE M. C. FISHER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, EASTMAN KODAK COMPANY, ROCHESTER, NEW YORK, ON BEHALF OF BUSINESS COALITION FOR U.S.-CHINA TRADE

Mr. GEORGE FISHER. Thank you, Mr. Chairman. I appreciate the opportunity to speak to all of you today. I thought I would use my time today to briefly describe why having China as a member of the World Trade Organization would be good not only for the United States and for China, but also for my company, Eastman Kodak. Then I would like to spend a few moments addressing some of the arguments of those who would suggest that we put our trade relationship with China on ice.

Let me focus immediately on the most important point. As I see it, the largely complete WTO market access agreement would be a great deal for this country. To illustrate, just consider industrial tariffs as an aspect alone, which are quantifiable and therefore easy for us to measure. Under the Uruguay round GATT Agreement, final average bound tariffs in developing countries like India, Brazil, and Indonesia ended up between 27 percent and 32 percent. Under the current draft, China WTO Agreement, overall average tariffs for industrial goods would be about 10 percent. That is a two-thirds reduction from the current rates and would put China's average tariffs lower than the WTO commitments of many other developing countries. And this is just one example of how the proposed China WTO Agreement provides better market access than we now have with some current WTO members.

Second, I would like to suggest that the proposed WTO deal would in fact be very good for Kodak in five important ways. First, it would lower tariffs on input materials that we will export to China, such as raw materials and sensitizing goods. Duties in these areas would drop by about 50 percent over 5 years.

Second, in a growth area like digital cameras, China has agreed to completely eliminate those tariffs, going from 45 percent to 0 by 2005.

Third, and for the first time, Kodak will be able to provide after-sales service on medical imaging equipment sold to Chinese hos-

pitals because of China's bold commitments to open its service sector.

Fourth, our motion picture film business would also be helped by a significant increase in the number of foreign movies that can be shown every year and mostly on Kodak-print film.

And, fifth, WTO membership would, I believe, stabilize the commercial environment so that our \$1 billion investment in China can proceed more effectively. This would facilitate more exports of Kodak materials and high-end products from our United States factories to China for finishing and final assembly. In fact, 80 percent of our current exports from Kodak from the U.S. go to one of our foreign subsidiaries for further work, making overseas factories our best customers for made-in-USA products and materials.

I would like to now turn, for a moment, to some of the criticisms of trade with China. In recent weeks, some have said that China should not be allowed to join the WTO because of concerns over national security or perhaps human rights issues. We cannot and should not minimize the importance of those very important issues which must be addressed as part of an overall United States-China relationship.

But I believe those critics who would link these issues with WTO membership proceed with a slightly flawed assumption. They view WTO membership for China as a reward for improved behavior. I would suggest that is wrong. China's entry into the WTO is not a reward, but rather a challenge. WTO membership will, in fact, require China to make difficult and sometimes painful economic reforms. For China, joining the WTO is, I believe, the hard part. Staying out would be the path of least resistance and also the one that would harm the U.S. the most.

Then there are other critics who would argue that China will not comply with its WTO obligations and, therefore, shouldn't be allowed. Well, as many of you on this Subcommittee know, I have had considerable firsthand experiences with countries that skirt their WTO obligations. And if, in fact, that becomes the chief test, it is going to be a big party of outcasts. Moreover, China's accession protocol is already more comprehensive than the obligations of some of the current WTO members and China's leaders, and unlike others—and I might suggest Japan—are aggressively restructuring their economy with actions and not just promises.

In sum, getting China into the WTO is strongly in this country's best interests. But please remember that without permanent NTR, all of the hard-won benefits of this agreement would accrue to our foreign competitors from Europe and Japan while American companies and workers sit on the sidelines. With your Subcommittee's leadership, I am really confident that the ultimate logic of free trade with China will continue to prevail. Thank you.

[The prepared statement follows:]

Statement of George M.C. Fisher, Chairman and Chief Executive Officer, Eastman Kodak Company, Rochester, New York on behalf of Business Coalition for U.S.-China Trade

Thank you, Mr. Chairman; I appreciate the opportunity to speak with you today in my role as CEO of Kodak and as a participating member in the Business Coalition for U.S.-China Trade.

I thought I would use my time to briefly describe why having China as a member of the World Trade Organization (WTO) would be good for the United States and

for Kodak. Then I'd like to spend a few minutes answering the arguments of those who have recently suggested that we put our trade relationship with China on ice.

BENEFITS TO THE UNITED STATES

Let me focus immediately on the most important point: the largely-complete WTO market access agreement would be a great deal for America.

In fact in many ways, the draft agreement with China would be a model for other developing countries to follow, and would provide U.S. firms with even *better* market access than we have in some countries which are already members of the WTO.

To illustrate, consider industrial tariffs, which are quantifiable and therefore easy to measure. Under the Uruguay Round GATT agreements, which Congress passed overwhelmingly in 1994, final average bound tariffs in developing countries like India, Brazil and Indonesia were between 27% and 32%.

Under the draft China WTO agreement, overall average tariffs for industrial goods would be *about 10%*. That's a two-thirds reduction from current rates, and would put China's tariff average considerably lower than the Uruguay Round commitments of comparable developing countries.

But there is much more to this deal than industrial tariffs. In other critical areas like financial services, telecommunications, distribution and retailing, the China WTO agreement is a model for reform that would open markets, foster change in inefficient state enterprises, and force local firms to meet expanded competition from foreign companies.

BENEFITS TO KODAK

Let me turn to Kodak specifically. Five years ago, China was Kodak's 17th largest market and we trailed Fuji in market share for film and photographic paper. Today, China is our third largest market and may soon pass Japan to be the world's second-largest photographic market. Kodak is now the Chinese market share leader in consumer film and paper, and there are about 4,000 Kodak Express retail outlets in China, with new ones being added every day.

Our growth in China is due in large measure to a \$1 billion investment we're making there. In a novel approach to state-enterprise reform that was championed by Premier Zhu Rongji, the Chinese government essentially allowed Kodak to acquire a major portion of its state-owned photographic products industry. We're upgrading the facilities, building new factories, and will soon have the capacity to produce 100 million rolls of film per year in China. Importantly, as we buy and upgrade old state-run factories, Kodak is already making significant improvements in worker safety and environmental compliance.

The proposed WTO deal would help Kodak grow in China even more dramatically in the future, in five important ways:

1. It would substantially lower tariffs on critical input materials that we will export to China, such as raw chemicals and sensitizing emulsions: *duties in these areas will drop by about 50% over five years.*

2. In important growth areas like digital cameras, China has agreed to *completely eliminate tariffs on digital cameras—going from 45% today to zero by 2005.*

3. For the first time, *Kodak will be able to provide after-sales service* on medical imaging equipment sold to Chinese hospitals, because of China's bold commitments to open its service sector.

4. Our motion picture film business would also be helped by *a significant increase in the number of foreign movies* that can be shown in China every year... on Kodak print film, of course.

5. Finally, a WTO deal and permanent normal trade relations *would stabilize the commercial environment* so that our \$1 billion investment in the Chinese market can proceed.

I want to emphasize that our Kodak factories in China will be important customers for Kodak exports made in the United States, as we ship raw materials and high-end products to China for finishing and final sale. In 1998 alone, we exported more than \$100 million in goods and materials to China, mostly to our own facilities. In fact, about 80% of Kodak's U.S. exports go to our own foreign subsidiaries for finishing and final sale, making Kodak's overseas factories our best customers for Made-in-USA products and materials.

ANSWERING CRITICISMS OF TRADE WITH CHINA

Now, let me turn to the critics of trade with China. In recent weeks, some have said China should not be allowed to join the WTO because of concerns over national security or human rights issues.

We cannot minimize the importance of these issues, which must be addressed as part of the overall U.S.-China relationship. But I believe critics who would link WTO to these issues proceed from a fundamentally flawed assumption. They view WTO membership for China as a *reward* for improved behavior. That's wrong. China's entry to the WTO is not a reward, but a *challenge*. WTO membership will require China to make difficult and sometimes painful economic reforms. The hard work is on China's side. The U.S. has to give up very little.

It simply makes no sense to look at WTO entry as a political weapon to pressure China on non-trade issues. Denying WTO membership would only strengthen the hand of those in China who oppose economic reform, who want to protect Chinese industry, or who prefer to isolate Chinese people from Western influences. For China, *joining* WTO is the hard part. *Staying out* would be the path of least resistance.

The record of trade with China provides strong evidence that economic engagement produces positive results. China's entry to WTO would accelerate a trend toward market-driven and more open foreign investments—an approach exemplified by Kodak's acquisition of Chinese state-owned assets. Ten years of involvement by U.S. companies in China demonstrates that the presence of American companies helps to improve the living standards of Chinese workers. And American firms bring with them practices that improve China's environment and worker safety. In Kodak's case, we bought very old state-owned photographic plants in Wuxi, Shantou and Xiamen, upgraded them, significantly improved environmental compliance, and recently celebrated 5 million safe work hours at our new plant under construction in Xiamen.

Finally, there are some who argue that China won't comply with its WTO obligations, and therefore shouldn't be allowed in. Well, Mr. Chairman, I have some first-hand experience with countries that skirt their obligations to the WTO, and if this is the chief test for membership we'll have a long list of outcasts. In China's case, there are two important factors to consider. First, China's protocol is *already* more comprehensive than the existing obligations of some current WTO members. And China's leaders—unlike Japan's—are restructuring their economy with tough actions, not words.

SUMMARY

In sum, Mr. Chairman, getting China into the WTO is manifestly in America's interests. But please remember that the greatest irony would be for the Administration to conclude a China WTO deal, but then see Congress reject permanent NTR. This would deliver all of the market access benefits won by our negotiators into the hands of America's foreign competitors, while leaving American firms and workers standing on the sidelines. With your committee's leadership, I'm confident that the ultimate logic of free trade with China will prevail.

Thank you.

Chairman CRANE. Thank you.
Mr. McGraw.

**STATEMENT OF HAROLD "TERRY" MCGRAW III, PRESIDENT
AND CHIEF EXECUTIVE OFFICER, MCGRAW-HILL COMPANIES,
NEW YORK, NEW YORK, ON BEHALF OF EMERGENCY
COMMITTEE FOR AMERICAN TRADE**

Mr. MCGRAW. Thank you, Mr. Chairman. And, Members of the Subcommittee, thank you for this opportunity as well to be here today. I am Terry McGraw. I am the president and chief executive office of The McGraw-Hill Companies and I am here today on behalf of the ECAT, the Emergency Committee on American Trade,

an association of the heads of the major American firms with international operations. ECAT was formed over three decades ago to support measures that expand U.S.-international trade and investment. In addition, Mr. Chairman, ECAT and McGraw-Hill Companies are strong supporters of the Business Coalition for United States-China Trade.

The McGraw-Hill Companies is a global information services provider and one of the world's leading providers of financial information and rating services and publishers of educational, business, and professional information. We employ 16,500 men and women in 400 offices in 32 countries. I think you probably best know us through the McGraw-Hill imprint in education, Standard and Poor's, and Business Week, to name some of our key brands. The McGraw-Hill Companies have a relatively modest business interest in China, accounting for less than 1 percent of our total companies' revenues, but for our company, like many others, the commercial opportunities are tremendous.

As exciting as the future prospects may be, let us first consider the impact and success of engagement with China in recent years. The changes have touched nearly every aspect of Chinese society: Government, technology, finance, and education. In terms of government, there has been a devolution of power to local authorities. There have been elections in China. Hundreds of millions of rural Chinese go to the polls every 3 years. And although they are only local, the elections have introduced such democratic concepts as the secret ballot, a choice of candidates, and a public vote count.

The technology revolution has brought 2.2 million Chinese users to the Internet, even though it only became available 3 years ago. Earlier this year, China launched its own government on the Internet project. More than 60 percent of the government departments are expected to be online by the end of this year and 80 percent are expected to be online by the year 2000.

In the financial arena, it was not too long ago that "red chips" referred to something other than a red poker game. Now red chips mean large, publicly traded, Chinese companies with growth potential. In fact, there are now between 25 million and 30 million individual stockholders in China.

While there is a long way to go, obviously, in the liberalization of financial services, there has been significant change. And, in terms of education, there are equally important changes. Did you know, for example, that in 1984, only one university in China offered MBA courses and by the end of 1997, more than 56 universities were licensed to offer MBAs in China? And, speaking of education, I am proud to say that a teacher education delegation from China organized by the Chinese Ministry of Education is visiting our elementary school division today to learn about the American system of teacher education.

Our challenge now is to find a way to encourage continued changes in China, especially on the human rights front, while we address other bilateral and multilateral issues.

Another issue is enforcement. There is an urgent need to get China to play by the rules of international commerce. China must be subject to the rules of the multilateral trading system and its enforcement mechanisms. In 1995, I joined then-U.S. Trade Rep-

representative Mickey Kantor in Beijing for the signing of a historic intellectual property bilateral agreement with China. We fully understood then that it would take some time to halt the piracy of intellectual property but we were hopeful the agreement would be honored. It has been a deep disappointment. In 1998, United States book publishers alone lost \$125 million to China book piracy. This is obviously a serious matter and it cannot continue.

We need to bring China into the world trading system and use the binding dispute resolution mechanism to protect United States intellectual property rights. As a WTO member, China would be required to protect those rights. If we do not bring China into the world trading system, there is certain to be continued loss for United States companies and the support mechanisms necessary to keep engagement moving forward will diminish. Countless opportunities will never be realized.

Finally, I want to stress the need for action. There will always be issues between our two countries. There is no such thing as a perfect time in a relationship as complex and multifaceted as ours. Change is a process. It takes time. The changes in China have been huge and have happened in a relatively short period of time. But we are under no illusions. China still has a long, long way to go. If we want changes in China to continue, we must remain engaged on all levels: Diplomatically, commercially, culturally, socially. Further engagement will mean further changes and it will mean having a way to enforce laws and ensure fair play.

Finally, our discussion today is not one of commerce versus values. Rather it is about what is in the long-term best interests of America and the rest of the globe. Let us build on the momentum of the positive changes already underway in China. To do that, ECAT calls on the Congress to support the continuation of China's normal trade relation status; to endorse the swift conclusion of our negotiations with China on WTO membership, based on a commercially acceptable protocol of accession; and to move forward with consideration of permanent NTR treatment for China as soon as we conclude.

Mr. Chairman and Members of the Subcommittee, you have long understood the benefits of engagement with China. By holding these hearings today, you are demonstrating your commitment to a thoughtful and careful approach to the entire issue of United States-China relations. Thank you for the opportunity to be a part of this discussion.

[The prepared statement follows:]

Statement of Harold "Terry" McGraw III, President and Chief Executive Officer McGraw-Hill Companies, New York, N.Y., on behalf of Emergency Committee for American Trade

I. INTRODUCTION

My name is Terry McGraw, and I am President and Chief Executive Officer of The McGraw-Hill Companies. The McGraw-Hill Companies is a multi-media publishing and information company headquartered in New York City. We employ 16,500 people in over 40 states and 30 countries. We provide financial services through our global network of offices for Standard & Poor's, educational and professional publishing, and information and media services. McGraw-Hill's textbooks and multi-media learning materials are used in classrooms around the world and our publications—such as *Business Week*, the fastest growing business publication in Asia—appear on newsstands here at home and abroad.

As an information provider, the expansion of the global economy and the progress of technology are keys to our growth into the twenty-first century. The Chinese market is a good example of this. Our company currently has relatively modest business interests in China. But for us and many other U.S. companies, the potential for commercial opportunities in the Chinese market is significant. Maintaining stable bilateral commercial relations with China through continuation of its NTR status and broadening market access in China for U.S. goods and services through a strong WTO market-access agreement are important to ensure continued global economic expansion and greater opportunities for The McGraw-Hill Companies and other American companies in China.

I am appearing before the Trade Subcommittee today on behalf of the Emergency Committee for American Trade, an association of the heads of major American companies with global operations representing all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over \$1 trillion, and the companies employ approximately four million men and women. Building stable, bilateral commercial relations with China is a priority for ECAT member companies. In addition, ECAT and The McGraw-Hill Companies are strong supporters of the Business Coalition for U.S.-China Trade, an ad hoc group of America's leading companies and major associations working for China's accession to the WTO on strong market terms and congressional extension of permanent NTR treatment to China.

ECAT recognizes that current U.S.-China relations are severely strained by the weight of serious diplomatic and security issues. Times of trouble, however, can be times of great opportunity. As the United States seeks to deal with the difficulties in its relations with China, strong commercial links can continue to serve as the backbone which reinforces bilateral ties. ECAT commends the Chairman and members of this Committee who have expressed clearly and forcefully the importance of moving forward with commercial relations with China.

To strengthen bilateral commercial relations with China, we in ECAT believe that China's NTR treatment must remain uninterrupted while efforts are made to conclude negotiations as expeditiously as possible on the terms of China's WTO entry. At the same time, we must prepare the way for the extension of permanent NTR treatment to China if the United States is to finally enjoy the full fruits of China's WTO membership.

II. IMPORTANCE OF MAINTAINING CHINA'S NTR STATUS AND THE U.S. POLICY OF ENGAGEMENT

The U.S. policy of engagement with China has contributed to the dramatic transformation of the Chinese economy over the past two decades. It has enabled significant growth in U.S. trade and investment in China, provided the basis for U.S.-China cooperation on efforts to alleviate the Asian financial crisis as well as on foreign policy and security issues, and spurred greater individual economic freedom, higher living standards, and greater access to outside information for the average Chinese citizen. Engagement has also supported the continued economic health of Hong Kong.

Maintaining China's NTR status is the cornerstone of the U.S. policy of engagement and the commercial, foreign policy, and security objectives that it supports. Interruption of China's NTR treatment would undermine these key objectives.

NTR treatment does not confer any special status on China. It simply means that we are agreeing not to discriminate against China's goods in favor of those of a third country. In return, China must agree to extend NTR treatment to the United States. NTR treatment is most-favored-nation status, a well-established principle under international law and the WTO rules. The United States grants NTR treatment to virtually all of its trading partners, with the exception of Afghanistan, Cuba, Laos, North Korea, and Vietnam. Therefore, the extension of NTR status to China simply confers what is normal trade status for the majority of U.S. trading partners.

THE CONTRIBUTION OF CHINA'S NTR TREATMENT TO U.S. TRADE AND INVESTMENT

Since the normalization of U.S.-China relations two decades ago, U.S. exports to China have increased nearly 20 times, totaling \$18 billion in 1998 and directly supporting over 200,000 American jobs in the manufacturing and agricultural sectors and indirectly supporting tens of thousands of additional U.S. jobs in retailing, distribution, and other sectors. During the same time period, U.S. investment in China has grown to roughly \$21 billion. China is already the fourth largest market for U.S. agricultural exports, and the American agricultural community has called China its most important growth market for the 21st century.

There is also vast potential for further sales of U.S. services and manufactured goods in China over the next decade as its 1.2-billion-person economy expands and China spends more than \$700 billion on infrastructure projects to support its growing population and commerce. A foothold in the China market is also key to expanding access to other Asia-Pacific markets that, in the long term, hold important potential for growth in U.S. trade and investment. Disrupting China's NTR treatment would jeopardize existing U.S. trade and investment in China and cut off opportunities for future growth.

The McGraw-Hill Companies sees significant growth opportunities in China for our information products and services. We want to provide Chinese workers and consumers with our educational and information products and services. The McGraw Hill Companies' subsidiary, Standard & Poor's, recently established a relationship with Xinhua Financial Consultancy, through which real-time international financial data and news is provided to the Chinese investment community. The McGraw Hill Companies' School Division is hosting a visit from a Chinese Ministry of Education delegation as we speak. The delegation is here to learn about the American system of teacher education. Through these and many other activities, we believe we can help the Chinese improve their standard of living and assure economic growth. We want the opportunity to continue and expand our activities in China.

CHINA'S NTR TREATMENT, U.S. SECURITY INTERESTS, AND EFFORTS TO ENCOURAGE GREATER ECONOMIC FREEDOM AND OPENNESS IN CHINESE SOCIETY

The continuation of China's NTR treatment is critical to far more than just commercial interests. It is also essential to strengthening China's strategic cooperation and promoting greater openness in Chinese society. Our commercial ties with China have contributed to China's willingness to play a constructive role in encouraging North Korea to end its nuclear weapons program, brokering a peace agreement in Cambodia, and trying to halt the arms race between India and Pakistan. China is also playing a major role in restoring Asian financial stability by maintaining the value of its currency and contributing to IMF recovery packages for Asian economies. Withdrawal of China's NTR treatment would disrupt these vital areas of strategic cooperation and further weaken our already damaged diplomatic ties.

China's NTR status and the U.S. policy of engagement should also be maintained to help fuel the remarkable ongoing transformation of Chinese society that has occurred over the past 20 years. As China's internal markets have opened and foreign investment has increased, Chinese government control over the lives of average Chinese citizens has decreased. As a result, the Chinese people now enjoy higher living standards, greater economic freedom, and more access to outside information than ever before. The Chinese government is now actively encouraging private home ownership. Use of the Internet by average Chinese citizens is burgeoning with over 2 million Chinese Internet users, bringing an even greater flow of outside information and ideas into China. In addition, several hundred million Chinese have participated in village-level elections.

Despite this tremendous progress, Chinese society is not fully open and much work remains to be done. The Asian financial crisis and ongoing efforts to restructure China's state-owned enterprises have contributed to rising unemployment, civic disturbances, and, unfortunately, renewed government efforts to repress political dissent. We must continue to press China to respect the rule of law and to honor its commitments under the International Covenant on Civil and Political Rights which it recently signed. Engagement and continuation of China's NTR status provide the basis for continuing progress on these issues.

CHINA'S NTR TREATMENT AND THE CONTINUED STABILITY OF HONG KONG AND TAIWAN

Hong Kong remains a vitally important gateway to Mainland China, and trade with Mainland China is a fundamental part of its economy. Its economy is an ongoing positive influence on Mainland China. The continuation of China's NTR treatment is therefore critical to the health of Hong Kong's economy. Withdrawal of China's NTR treatment would decrease Hong Kong's trade by tens of billions of dollars, result in a loss of tens of thousands of jobs in Hong Kong, and destabilize its financial markets.

Maintaining China's NTR treatment is also an important part of supporting our nation's "One-China" policy, under which the United States formally recognizes the

People's Republic of China, acknowledges that Taiwan is part of China, and maintains only unofficial commercial relations with Taiwan. This policy has enabled the United States to move forward with its commercial and political relationship with China while preserving commercial ties with Taiwan, which remains an important U.S. export market.

The "One-China" policy has also encouraged China and Taiwan to develop their trade and investment ties and to move toward renewal of their bilateral dialogue. Trade flows between China and Taiwan have grown to over \$17 billion, and Taiwanese companies have invested over \$35 billion in China over the last decade. The disruption of China's NTR status would undermine U.S. efforts to allow Taiwan to prosper as a vibrant democracy. It would also threaten Taiwan's efforts to join the WTO, as there is an informal understanding that Taiwan will not be admitted to the WTO until after China has acceded. If China's NTR status were withdrawn, it is unlikely that further progress could be made in our bilateral negotiations with China on its WTO accession, thereby stalling both China's and Taiwan's WTO membership indefinitely.

III. THE UNITED STATES BILATERAL TRADE DEFICIT WITH CHINA DOES NOT WARRANT DENIAL OF CHINA'S NTR STATUS

While our bilateral trade deficit with China is of concern, it would only be exacerbated by the removal of China's NTR status. Denial of China's NTR treatment would result in the erection of additional barriers to U.S. goods and services in the form of high tariffs and other retaliatory measures that would lead to a worsening of the trade deficit. The best means to address our trade deficit with China is pursuing the removal of market access barriers in our bilateral negotiations with the Chinese on the terms of their WTO accession. Until negotiations are completed on China's WTO accession, we must stand firm in insisting that China adhere to its existing bilateral market access commitments.

It is also important, however, to put our bilateral trade deficit with China in perspective. The trade deficit reflects a shift in production of low-wage consumer products, such as footwear and toys, to China from economies such as Taiwan. A portion of the bilateral trade deficit is also due to U.S. unilateral sanctions against China, such as restrictions on the export of high-speed computers. In addition, although they are reported separately, a large portion of U.S. exports to Hong Kong, as much as 40 percent, is ultimately destined for China. Finally, alternative approaches to the Department of Commerce methodology used to compile trade data suggest that the China trade deficit may be one-third lower than indicated in official U.S. Government statistics.

IV. SECURING CHINA'S WTO MEMBERSHIP AND THE EXTENSION OF PERMANENT NTR STATUS TO CHINA THIS YEAR

ECAT believes that the United States has a unique window of opportunity this year to move beyond annual NTR renewal to create a more stable commercial relationship with China. If an agreement is not reached on China's WTO accession in the near future, there is a real risk that a final agreement will be delayed for years. Of course, China must do its part and agree to resume the bilateral negotiations with the United States on WTO accession.

BENEFITS OF CHINA'S WTO MEMBERSHIP

It is in the U. S. interest to bring China into the WTO on the basis of a commercially-acceptable protocol of accession. The McGraw-Hill Companies and other ECAT member companies cannot gain a secure foothold in the Chinese market until China is subject to WTO rules and dispute settlement. We cannot build a solid commercial foundation in China based on piecemeal enforcement of bilateral commitments through counterproductive unilateral sanctions. We must ensure that China abides by uniform multilateral rules, and we must be able to enforce those rules through WTO dispute settlement.

In our case, we will not be able to extend our information services and distribute our publications in China until existing foreign investment and distribution restrictions are liberalized and China agrees to abide by the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Currently, our ability to do business in China is severely limited by restrictions on distribution rights and foreign investment. Piracy of our textbooks and educational materials is also a serious problem, as China accounted for the highest level of book piracy in the world last year, costing U.S. book publishers an estimated \$125 million in lost sales.

China's WTO membership is also a critical part of fully integrating China into the global economy and encouraging China to play a more positive role in ensuring future global economic stability and growth, particularly in Asia. China's WTO membership would help to bolster China's commitment to maintaining the value of its currency, which has been key to restoring stability to Asian financial markets. China's WTO membership would be a significant vote of confidence in the multilateral trading system.

Securing China's WTO membership is also the best means to stem our rising trade deficit with China in that it would comprehensively address Chinese market access barriers. Achieving binding WTO market access commitments enforceable under WTO dispute settlement procedures is the way to deal with such barriers. The longer China's WTO accession is delayed, the more U.S. business opportunities are lost.

In addition, China's WTO membership will further structural reform in China through the fundamental changes in China's economic regime that will be required as part of the process of joining the WTO and accepting its obligations. This in turn will create a more open climate for trade and investment in China that will spur economic growth, create new jobs, and improve the living standards of average Chinese citizens.

CONCLUDING WTO BILATERAL NEGOTIATIONS WITH CHINA

This past April during the U.S. visit of Chinese Premier Zhu Rongji, the United States and China achieved major breakthroughs in bilateral market access negotiations on the terms of China's WTO entry which would dramatically open China's markets to American goods, services, and agriculture. The breakthroughs announced by the Administration in April will:

- Be comprehensive, covering agriculture, industrial goods and services, elimination of quotas, removal of sanitary and phyto-sanitary barriers to agriculture, export subsidies, tariff elimination, removal of limits on trading rights and distribution, and restrictions on services;
- Grant no special favors to China and require China to reduce its trade barriers;
- Be fully enforceable under U.S. trade laws, WTO dispute settlement procedures, and special enforcement mechanisms to be included in China's protocol of accession; and
- Be implemented swiftly upon China's accession, with the exception of China's commitments to remove its sanitary and phyto-sanitary standards barriers to agricultural products, as they are already being implemented.

It is also important to note that China's market access concessions are one-way and do not require the United States to make any concessions in return.

The April negotiations have put the United States at the doorstep of a commercially-acceptable WTO protocol of accession with China. For The McGraw-Hill Companies, the WTO bilateral agreement being negotiated with China will mean that restrictions on market access to books, periodicals and magazines will be removed, restrictions on investment will be eased, and protection of our intellectual property rights will be improved. Most importantly, the United States will be able to enforce these commitments through binding WTO dispute settlement.

We cannot afford to lose this opportunity, and ECAT believes that both the U.S. and Chinese governments must redouble their efforts to resolve any outstanding issues to further open markets and to conclude a market access agreement.

NEED TO EXTEND PERMANENT NTR TREATMENT TO CHINA

The United States cannot take full advantage of the benefits of China's WTO membership and its market access commitments unless it extends permanent NTR treatment to China. Permanent NTR or MFN treatment is a core obligation under Article I of the GATT and the WTO. The Jackson-Vanik provisions of Title IV of the Trade Act of 1974 prohibit the United States from granting permanent MFN treatment to China. Once China is admitted to the WTO, if the United States extends WTO benefits to China, the Jackson-Vanik provisions could immediately be challenged by the Chinese as denying MFN treatment in violation of Article I. The United States has therefore taken the position that it would not apply WTO benefits to China until the Jackson-Vanik provisions have been amended to allow the permanent extension of NTR treatment to China.

ECAT urges the Congress to begin to consider extending permanent NTR treatment to China as soon as the bilateral negotiations on market access and the protocol of accession have been completed between the United States and China.

V. CONCLUSION

The continued extension of China's NTR status clearly advances our national interest. The McGraw-Hill Companies and other ECAT member companies believe that the United States should take advantage of the historic opportunity before us to conclude negotiations with China on a commercially-acceptable protocol of accession as expeditiously as possible. Based on such an agreement, The McGraw-Hill Companies and ECAT are committed to working with the members of this Committee and other members of Congress to build bipartisan support for the permanent extension of NTR treatment to China.

I appreciate the opportunity to appear before the Trade Subcommittee on behalf of ECAT.

Chairman CRANE. Thank you, Mr. McGraw.
Mr. David.

STATEMENT OF GEORGE DAVID, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, UNITED TECHNOLOGIES CORPORATION, HARTFORD, CONNECTICUT, AND MEMBER, U.S.-CHINA BUSINESS COUNCIL, ON BEHALF OF BUSINESS COALITION FOR U.S.-CHINA TRADE

Mr. DAVID. Mr. Chairman, thank you and thank you for the opportunity to appear before your Subcommittee. This Subcommittee is already thoroughly informed on the issues, so I thought I would take my time today, brief as it is, and offer simply some data on United Technologies Corporation and our experiences in China, which may be helpful to you.

First of all, we are a large American manufacturer, ranking number 21 on Fortune's list of industrial companies. We are America's ninth largest exporter. We also have had a good sized and long-time presence in China with sales there of about \$1 billion a year. And about a fifth of those sales to China are high-technology exports from the United States, principally aerospace products. You will also recognize our company by its principal trademarks, Pratt and Whitney aircraft engines, Otis elevators, Carrier Corp. air conditioning, and Sikorsky Aircraft helicopters.

Our history in China is rich. We first sold elevators there in the year 1900. We sold air conditioners there in the thirties, and, Pratt and Whitney's then "piston" engines in the same decade. Our ventures in China today number 21 and we employ about 10,000 people locally.

I have four points to make today: First, we are a big exporter to China, and an exporter of high-technology products, which support America's best jobs. UTC's exports to China supported 3,000 jobs altogether last year, based upon the Commerce Department's guidelines. Pratt and Whitney jet engines are the largest portion of our exports. They have totaled over \$500 million over the 3 years 1996 to 1998. Most of these jobs for aircraft engines are in Connecticut, and Pratt's paid manufacturing wage in Connecticut is \$20.64 per hour, which is more than half again above the average U.S. manufacturing wage. These are great jobs at great wages.

Now, we don't manufacture aerospace products to any material degree in China, but we do manufacture our commercial products like elevators and air conditioners because they don't ship economically. But the fact that we have a manufacturing presence for those

commercial products there certainly helps us to be able to export our top-of-the-line equipment from the United States. Sales in that category have approached \$200 million over the last 3 years.

Let me give you a couple of good examples of our sales in China: One is the chiller equipment in the Great Hall of the People. Carrier Corp. provided it, chlorine-free, ozone-friendly, and it is manufactured in Syracuse, New York, at a wage rate of about \$18.16 per hour. Again, that is way over the average U.S. manufacturing average. Another example is that we have the elevators in the Shanghai TV Tower, which is the third tallest structure in the world. Those elevators were built in Bloomington, Indiana, and, again, at way over the average U.S. wage rate. The bottom line is that our exports generate great U.S. jobs at great wages, which is why we so much strongly endorse this WTO accession agreement.

In China, we employ 10,000 people. We are, I believe, an effective force for change and this is the reason why. First, we pay our employees good wages. For example, one of our subsidiary companies in Shanghai, Hezhong Carrier, employs more than 300 people. It pays just slightly less than twice the prevailing wage in Shanghai which is not unusual for American-controlled ventures in China.

My second point is that we apply UTC's environment, health, and safety standards uniformly across the entire world including China. The same standards for environment, health, and safety apply in Shanghai or in Beijing that apply in Connecticut or Indiana.

Third, many of our employee benefits are available globally. There is one I would like to mention just briefly, and that is UTC's employee scholar program, which has been publically recognized by President Clinton and Labor Secretary Herman. That program today supports 11,000 Americans in college in advanced degree course work, and that is 15 percent of our U.S. population, 100 percent on UTC's nickel. In China, we have 100 people in the same program. Our belief is that an educated work force is a great work force; an educated people are thoughtful people, pro-reform and advance the ideals that we, as Americans, hold dear.

My fourth and final point is that China has already made a lot of progress, I believe, in opening itself to the world. The average inbound foreign direct investment (FDI) in China is \$44 billion a year, which is second after only our country in the whole world. The cumulative total of FDI in China is \$269 billion, which is 5 times more than in Japan at any time. Japan is a closed economy in terms of investment while China is open. And imports into China are currently \$140 billion a year, which is 14 percent of China's GDP. That is a percentage that is even higher even than in the U.S. China is in that sense, more open to imports than we are.

Now we know that there have already been important and even unique concessions negotiated by Ambassador Barshefsky's WTO team. Two of them apply to us: One has been mentioned earlier, which is the reduction of the external tariff to a flat 9 percent rate. That compares to tariff rates today in the 30 percent to 40 percent range for our elevator and air conditioning equipment. And the second is the agreement to eliminate restrictions on distribution companies. Today we control the distribution of Carrier products made

in China. However, Carrier's only United States-made product may not go through our distribution channels in China, and the Barshefsky agreement, we believe, eliminates that problem.

In summary, therefore, not only does engagement with China generate great U.S. jobs, it also brings the Chinese to embrace and reaffirm the reform agenda that we as a Nation properly seek. There is no better way to teach than by example and by participation. History also shows that windows of opportunity are rare, and that when presented, they are to be treasured and seized. For countless reasons—and this is the experience of one employer—this seems to be the window of opportunity right now, to approve a WTO agreement, if negotiated by our government on satisfactory terms, and also for Congress to grant permanent NTR and, at a bare minimum, to extend NTR for another year.

[The prepared statement follows:]

Statement of George David, Chairman and Chief Executive Officer United Technologies Corporation, Hartford, Connecticut, and Member, U.S.-China Business Council, on behalf of the Business Coalition for U.S.-China Trade

Good afternoon. My name is George David. I am Chairman and Chief Executive Officer of United Technologies Corporation and a board member of the U.S.-China Business Council. I am also appearing today on behalf of the Business Coalition for U.S.-China Trade.

At UTC, we sell each year about a billion dollars of our products and services in China. Two hundred million of this total is exports from the United States, principally aerospace products, and these exports support some of the best jobs in America. We also employ 10,000 people in China, provide wages and working conditions there we can be proud of, and are consequently an effective force for change in that vitally important country and economy.

I know this group is substantially partial to pro-China trade arguments. You are also highly informed legislators on this subject. I propose to limit myself therefore mostly to facts about our company and our experiences in China, saving the rhetoric for the end of these remarks and with only a few words then.

I feel I am informed personally about China. I went there first in 1985, and have returned every year since and typically more than once. I am acquainted individually with a cross section of China's leadership and have negotiated business deals with Chinese counterparts, met countless employees in our ventures, and traveled widely throughout the country. My views reflect these personal experiences.

United Technologies Corporation is one of America's largest and most international companies. Fortune magazine ranks us number 21 among all industrial companies, and the United Nations identified us several years ago as one of only four American companies with more than 100,000 employees outside the United States. We are also a high technology company, with our subsidiaries including Pratt & Whitney (jet engines), Otis (elevators), Carrier (air conditioning), Sikorsky (helicopters), and Hamilton Standard (aerospace systems). We are also just about to complete our acquisition of Sundstrand Corporation, along with Hamilton Standard a premier aerospace systems provider.

Our history in China dates to 1900, when we shipped the first Otis elevators there. We provided Carrier de-humidification and cooling systems for industrial applications in China as early as the 1930s, and Pratt & Whitney's then piston engines to China also in the 1930's.

More recently, Pratt & Whitney's JT-3D engines powered the Boeing 707's delivered to China following President Nixon's visit in 1972, and today Pratt & Whitney powers more than a third of all large commercial aircraft in China.

We returned to China in 1984. Since then, we have formed 21 ventures, all of them UTC majority owned. These are the centerpieces of our \$1 billion in sales there, and of the \$200 million of exports accompanying and caused by this presence. Taking the Department of Commerce's recently revised figure of \$65,000 per job, these exports equate to 3,000 U.S. jobs.

These exports are also of high value added products, and the 3,000 jobs are among the highest wage and best ones our country has anywhere. Our largest export category in fact is jet engines, with sales over the three years 1996-1998 totaling more than half a billion dollars. For reference, the hourly wage at Pratt & Whitney is

\$19.32 per hour, more than 40% above the average U.S. manufacturing wage of \$13.66.

The second largest category is air conditioning. We are a manufacturer in China, because air conditioning equipment is physically large and typically doesn't ship economically. But the top of the line equipment comes from the United States, with these Carrier exports to China totaling almost \$140 million over the same three years. A great example is the chiller equipment just replaced in the Great Hall of the People. It's Carrier for sure, manufactured in Syracuse, New York, and it's chlorine free and ozone friendly to boot. Carrier's wage rate in Syracuse is \$18.16, again well above the average U.S. manufacturing wage.

It is also perfectly clear to us as an exporter and competitor in China that our local and joint venture presence is what got us the Great Hall of the People job. Without one, we don't have the other, and it is the foreign direct investment that comes first, always.

Otis exports to China too, and these exports again are made possible by its local joint venture presence there. The signature building in China is Shanghai's TV Tower, the third tallest in the world, and the elevators taking us to the top were built by Otis in Bloomington, Indiana. Otis' wage rate in Bloomington is \$15.12, again well above the U.S. average.

The bottom line to these exports is great U.S. jobs at great wages.

We do build products and provide services in China that don't ship economically from the U.S. or that can't physically be done here. But in working directly in China, we are a powerful and effective force for change. I offer three points in support. First, our local joint ventures pay significantly more than competing and locally owned enterprises. For example, Hezhong Carrier in Shanghai, which we acquired in 1986 and which makes commercial air conditioning systems, employs more than 300 people at a rate twice the prevailing Shanghai level.

Second, we apply UTC's environment, health and safety standards uniformly across the world and specifically in China. These standards are set against U.S. law and regulation, and we flatly do not export dangerous or environmentally abusive work. One example that I am personally proud of is our company's dual redundancy standard for safety devices for presses, brakes and shears, and the more dangerous tools in factories. Not only is this UTC standard unusually high as compared to U.S. industry in general, it is also worldwide in its application and at a cost to us of about \$50 million. To be specific to one of our China factories for a moment, I have shut down personally a non-compliant tool, and will do so again, anywhere, anytime.

A third program for which UTC has received recognition and even from President Clinton is our Employee Scholar Program. Today, almost 11,000 of our U.S. employees are in school and taking college and advance degree coursework, all entirely at our cost and with some special features, including a graduation award of UTC stock, that cause us to enroll three times the U.S. national average. But the point specific to China is that we extended this program worldwide a little over a year ago, and today 62 of our Chinese employees are in colleges and universities under this program. This is less than one percent of our China workforce and a small figure indeed as compared with our U.S. number of 15%, but it is a start and we can be confident of steady increases. And we have learned that educated employees are the best employees, and educated people are characteristically democratically inclined people, people open to change, people open to the ideals we as Americans hold dear.

In short, this is no race to the bottom.

Taking a broader view, I believe the Chinese experience over the last twenty years is different from that of many other countries, and remarkably so. The bottom line, and contrary to views held by many, is that China has been open indeed to foreign direct investment and to moving from a closed economy with little or no external trade to trade levels that as percentages of GDP already exceed our own. The society has also used this openness to fuel and continue reforms.

I don't for a minute believe this is starry eyed idealism, nor that the Chinese economy is as open as it must or will be. Instead, the hard statistics confirm that there has been progress, important progress, and it behooves observers and critics to recognize this. For foreign direct investment, China is already the second highest destination country, after only our own. Inflows there have averaged \$44 billion annually over the last three years, and the cumulative total since 1979 is \$269 billion. Note please that I use the more conservative definition of funds expended as compared with funds contracted. This compares with Japan at \$50 billion cumulatively over all time, a hardly noticeable excess over the Chinese annual rate. Rough estimates are that these Chinese foreign direct investments now support a million jobs, and inside this total, American investment support 200,000 jobs. The point is that we want the Chinese to embrace a change agenda and an open markets and demo-

cratic agenda, and there can be no better way than showing them how Western systems work, right inside their own markets and country.

On trade, there has also been important progress, although the large bilateral deficit between our two nations remains a difficult problem, and one that must be corrected. But let's not lose sight, in the controversy over the deficit, of one fundamental point. The first is that China has moved from an essentially wholly closed economy twenty years ago to today importing \$140 billion annually, 14% of GDP and a level already higher than our own. Exports are higher, at \$184 billion and 19% of GDP, and it is unfortunate that more than all of this surplus is concentrated on and reciprocally becomes our deficit with China. This is why there must be continuing market opening pressures from the U.S. side, and why significant further concessions are required from the Chinese. Yet from effectively zero to 14% over twenty years is no small accomplishment and worthy of recognition.

These trade and investment data make a key point, and I believe make it decisively. The Chinese have made progress and important progress on the opening agenda. At the same time, we and the Chinese must both recognize a long road ahead.

We need China in the WTO, and this Trade Subcommittee knows and supports this as much as any body in our Government. China is today a trillion dollar economy, the seventh largest in the world, and by many forecasts will be the third largest in the world within a decade or shortly thereafter. China has also made progress on liberalizing trade and investment, and will make significantly more under this WTO accession agreement. Following the line of UTC specifics to be helpful to you, I recite here the two principal points we understand to have been negotiated successfully by our Government's team to date.

First is the general Chinese external tariff reduction to a flat 9% rate, by the year 2005. For comparison, our elevators today face 38% tariffs as complete systems and 19% as component parts. Our air conditioning equipment faces tariffs varying by product category but typically in excess of 30%. The impacts will be fundamental for us, will increase our exports to China, and will augment those totals for great U.S. jobs I recited earlier.

Second is the reportedly agreed elimination of restrictions on trading and distribution rights. Carrier does have majority control of its joint venture distribution company and network in China. However, current regulations prohibit us from selling imported U.S. equipment and parts through this company and network, instead limiting us to Chinese manufactured products. This restriction elimination, which we understand to have been agreed already, covers distribution for all foreign investors in China, and will be a tremendous plus to U.S. exporters.

However, any recommendation to complete the China WTO accession agreement must be contingent upon our Government's satisfaction with this agreement, and with its containing the levels of Chinese concessions reported. The World Trade Organization is about rule and compliance with rules, and the Chinese as all other countries need to step up to these.

To come to the rhetoric, China is a critically important economy and country to our nation's future. Already the world's seventh largest economy, it may well become the third largest within the foreseeable future. America's exports to China today total \$15 billion, are typically of America's highest value added products, and support 220,000 of our country's best jobs.

China has also already been remarkably open to foreign direct investment and to increasing trade. It has used these devices more than most other emerging societies to start and maintain the reform and open markets and open society agenda we as Americans so badly want.

Our WTO negotiators have reportedly succeeded in securing unprecedented concessions in the WTO accession agreement, and, if the specific reports are accurate, this is certainly the case for the products we as UTC know best.

Finally, history shows that windows of opportunity are rare, and that when presented they are to be treasured and seized. Just because of the current events and environment, this is the opportunity. Along with so many others, I urge us to seize it, approving a WTO accession agreement and granting permanent NTR if the Chinese concessions are even close to those reported, and alternatively and at the barest minimum extending NTR for a further year.

Chairman CRANE. Thank you, Mr. David.
Mr. Van Andel.

STATEMENT OF STEVE VAN ANDEL, CHAIRMAN, AMWAY CORPORATION, ADA, MICHIGAN, ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

Mr. VAN ANDEL. Thank you, Chairman. And I am chairman and chief executive of Amway Corp., as you so rightly indicated, was started by my father 40 years ago in the basement of his house. It has now grown substantially to a multinational company that has over \$6 billion in retail sales and, of course, we go through the direct selling industry to the direct selling business. But today, actually, I am here on behalf of the U.S. Chamber of Commerce where I serve as a board member and have a direct role in shaping their international positions.

The Chamber is the world's largest federation representing more than 3 million businesses in different regions and I am pleased to have the opportunity to talk a little bit about the United States-China trade relations for the Chamber. In the interest of time, I am going to summarize those remarks by highlighting three major positions in support of normalizing trade relations with China on a permanent basis within the context of China's accession to the WTO.

First and most critically, China has recently committed to open its markets as a condition of the WTO accession. The Chinese have offered to remove barriers to United States products by lowering tariffs, by eliminating quantitative restrictions, and by opening sectors that previously were unavailable for foreign participation. This would allow companies not only to market their products, but also service their products throughout China. Last year, the United States exported over \$14 billion in goods and services and, while that is significant, I think it could be much higher. United States companies can only reap the benefits of this agreement when China is accepted into the WTO and Congress extends permanent NTR status to China.

Second, WTO membership will encourage economic and ultimately political reforms in China. Foreign investment requires stability that can be achieved only with rule of law. With the WTO membership, China will need to abide by the international trade rules that include protection of foreign investment. Because it is the rule of law that ultimately guarantees human rights, it follows that, with the economic advancement, we also will see a strengthening of those basic principles that advance personal or individual freedom in China.

I don't want to leave you with the impression that China does not now respect laws. In fact, my company can attest to the fact that China does try to apply laws in a fair and responsive manner. China recently enacted a ban on direct selling and our experience shows that the government responds both to the demands of its citizens as well as to foreign investors. I won't go through all of the details of the ban that briefly halted our operations, but I do want to stress that the Chinese Government worked with us to develop regulations that protected its citizens from fraud while allowing us to honor our commitment to our distributors.

Some critics portray China as a totalitarian dictatorship obsessed with control. Our experience has given us an insight into a far more complex situation. China is striving to adapt to modern global

challenges in a way that respects its complicated history. We believe it is possible to work with the Chinese Government, provided that it is done with respect for their internal political priorities. Many outstanding issues can be resolved in a manner that advances U.S. interests if we remember that solutions must be politically acceptable to both sides.

And, finally, the Chamber recognizes that there are serious questions regarding national security and our relationship with China. I am not going to address the substance of those or the substance of the charges that are in the report filed by Mr. Cox, other than to say that it is a serious study of the issues worthy of careful consideration by Congress. Yet, even in the context of that report, we see no reason to forego the commercial opportunities presented by China's offer to open its market. That opening is in our best interests. We lose nothing by accepting it, but if we fail to act, we lose the opportunity to bring China more fully into a world trading system.

To conclude, the U.S. Chamber believes that the time has come to finalize those negotiations, so that U.S. companies can take full advantage of the market opening measures. We believe that Congress should join with U.S. businesses to press the administration to move more rapidly to this agreement before the next WTO ministerial meetings. It is our judgment that China's membership in WTO will ensure that modernization of its economy occurs in a manner consistent to the international standards. If China is not a member prior to the next round of trade negotiations, it will be more difficult than ever to bring them into an international trading system. We have got a window of opportunity to secure access to the Chinese market and the ability to advance rule of law in China. It would certainly be a tragic mistake to forego this opportunity. Mr. Chairman, thank you.

[The prepared statement follows:]

Statement of Steve Van Andel, Chairman, Amway Corporation, Ada, Michigan, on behalf of the U.S. Chamber of Commerce

Thank you, Mr. Chairman, for the opportunity to testify today before this Subcommittee on Trade on the critical issue of US trade relations with China. I am Steve Van Andel, Chairman of Amway Corporation, a Michigan-based company known for its quality products and use of the direct selling system that encourages people around the world to succeed by owning their own businesses. Amway has proudly maintained a partnership with its distributors that has enabled the company to grow from a tiny operation in the basement of my father's home into a multinational enterprise with annual retail-equivalent sales nearing \$7 billion.

Today, I am appearing on behalf of the US Chamber of Commerce, where I serve as a member of the Board of Directors and have a direct role in shaping the Chamber's international policy positions. The US Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region. I am pleased to have this opportunity to present the views of the Chamber on US-China trade relations at this critically important time.

The US Chamber has long supported normalization of US-China commercial relations. The Chamber supports permanent and unconditional extension of normal trade relations (NTR) status to China. We support its entry into the World Trade Organization (WTO) under commercially viable terms. We also advocate the removal of unilateral economic sanctions on China. Those of us who are involved in or associated with the US Chamber believe that a strong commercial foundation will enhance our relationship with the People's Republic of China. Moreover, we are convinced that it will foster cooperation on a range of issues including controls on proliferation of weapons of mass destruction, human rights and global financial management.

INCREASING PUBLIC UNDERSTANDING

Before turning to the subject at hand, I want to thank you, Mr. Chairman, for holding this hearing, which affords the American public an opportunity to give due consideration to this critical issue. The Chamber is committed to increasing public understanding of the benefits to the United States of enhanced trade with China. The Chamber is drawing on its state and local chamber of commerce affiliates as well as small and medium-sized member companies to strengthen public understanding of the importance of our commercial relationship with China.

As part of its education efforts in 1998, the US Chamber issued a report on Small Business Success Stories in China, which highlighted the successes of just a sampling of 30 small US companies that have developed markets for their products in China. This year the Chamber released an educational brochure on US-China issues that explains why stronger relations are in the interest of the United States. The document offers a brief history of trade between the two countries and answers some commonly asked questions about our commercial relationship. That report was sent to each member of the House and Senate, to over 650 state and local chambers of commerce and to selected Chamber member companies small and large.

Greater public understanding about the many facets of our relationship with China is critical to an informed debate on trade policy issues because understanding brings an appreciation of the vast opportunities that exist for US companies and workers. As US manufacturers, workers, farmers, service providers and others learn the extent to which China has offered to open its markets, they have become convinced that China should be admitted to the WTO. Moreover, I can tell you that the US Chamber will campaign to inform the American people that this market-opening agreement is in their interest. I am confident that there will be strong grassroots support for China's WTO accession and for those Members of Congress who back this agreement.

CHINA'S ACCESSION TO THE WORLD TRADE ORGANIZATION

For well over a decade, China has been negotiating to gain admission into the world trading body. Without regard to the length of these negotiations, US and Chinese negotiators agree that significant progress has been made. While differences remain concerning specifics, China has committed to open its markets and abide by the rules of the international trading system that apply to WTO members. These moves are part of the modernization of the Chinese economy and will benefit both the Chinese people and China's trading partners. The Chinese people will find that their economy will become more dynamic and its growth potential will increase. We will benefit because a WTO agreement rooted in commercially viable principles will result in the removal of barriers to US products by lowering tariffs, eliminating quantitative restrictions, opening sectors previously closed to foreign participation and allowing US companies to distribute their goods and to service products after sales throughout China.

The US Chamber believes that the time has come to conclude these negotiations so that US companies can take full advantage of these market-opening measures. We believe that Congress should join with US businesses to press the Administration to move rapidly and complete this agreement before the next WTO ministerial meeting. In our judgment, China's membership in the WTO will ensure that the modernization of its economy occurs in a manner consistent with international norms and standards. If China is not a member prior to the start of the next round of trade negotiations it will be ever more difficult to bring China into this international trading system on mutually acceptable terms. Simply put, there could be no better time than the present to resolve these issues.

PERMANENT NORMAL TRADE RELATIONS FOR CHINA

I must stress the importance of pushing this agreement to its conclusion. Permanent NTR status is critically important to securing China's commitments. US companies can only reap the market-opening benefits of this agreement when China is accepted into the WTO. The Congress will then be asked extend permanent Normal Trade Relations (NTR) status to China under standard WTO terms. If the Congress does not permanently extend NTR or normal US tariff levels to China, their government will not be bound to honor its market-opening commitments to the United States. Our competitors, however, will benefit from China's market-access policies.

Last year, the United States exported over \$14 billion in goods and services to China. These exports supported hundreds of thousands of jobs in the United States

that pay 10 to 15 percent more than the US average. Trade with China also supports tens of thousands of jobs at ports, retail establishments and consumer good companies. While \$14 billion in exports is not insignificant, US exports to China can and should be much higher given the quality of our products and China's need for what the United States has to sell. China's membership in the WTO and removal of annual NTR review by Congress will eliminate barriers to US exports and will help improve our trade imbalance with China.

The greatest potential increase in exports to China will be in the agriculture and infrastructure sectors. China is the sixth largest export market in the world for US farmers. That market is expected to grow significantly in the coming years thanks to the bilateral agreement on agriculture that took effect in April. In that agreement, China pledged to use only science-based standards to evaluate agricultural imports from the United States. When combined with tariff cuts pending in the WTO negotiations, it promises very significant opportunities for US farmers doing business with China.

China's market-opening commitments would also increase the likelihood that US companies will benefit from China's massive infrastructure development needs. China is undertaking major infrastructure projects in sectors where US companies are particularly competitive. Given the chance to bid on equal terms with firms from other countries, US companies will be very competitive.

US consumers and small shop owners have much to gain from the increased trade that China's WTO accession and permanent NTR status would likely generate—and also a great deal to lose without that NTR status. Without NTR, tariffs on US imports from China would increase by at least 30 percent and in some cases as much as 50 percent. Based on 1996 import data, these tariff hikes would impose a tax increase of at least \$300 on the average family in the United States. This burden would have the greatest impact on low-income and working households who would pay more for consumer goods such as apparel, footwear, and toys. Small and medium-sized US companies selling these goods would also be hard-hit.

Beyond the direct commercial benefits of WTO accession and permanent NTR for China, expanding US-China trade is in our broader national interest. Trade has been a pillar of a relationship that brings together two of the most powerful countries on earth. US-China trade has fostered and accelerated dramatic economic reforms in China. These in turn are generating internal political reforms. By our operations in China, US Chamber members establish benchmarks for corporate practice in such areas as personnel management, corporate citizenship, fairness and equal opportunity. Many members have made their commitments to ethical business practices explicit through a corporate statement of principles. US Chamber members have been and will continue to be forces for positive change in China.

Some critics argue that by extending permanent NTR, the United States ignores China's human rights record. We disagree. Our operations establish standards that Chinese citizens then begin to demand from other employers in China. Removing NTR will not lead to progress on human rights. It would erode our economic relationship, harm the forces in China that are most sympathetic to political reform and isolate Chinese officials who argue for an improved relationship with the United States. The US Chamber and all others who support human rights should recognize that the best way for the United States to promote political reform in China is to maintain a policy of commercial engagement.

It is my firm belief that progress in the area of human rights and democratic reform will be hastened by adherence in China to the rule of law. Moreover, it is the rule of law that ensures that both citizens and business are treated fairly. My company can attest to the fact that China is striving to formulate and apply laws in a manner that is responsive to the demands of its citizens as well as foreign investors.

AMWAY'S EXPERIENCE IN CHINA

Permit me to recount for you our experience in China during the past year, as doing so will provide a vivid example of improvements in the rule of law and the commercial environment for foreign companies that have already been made in China. Amway is one of the largest direct selling companies in the world. We manufacture more than 400 home and personal care products as well as the Nutrilite line of vitamins and food supplements. Amway only sells products through a network of independent contractors who own and operate their own businesses.

We initiated operations in China as Amway (China) Company, Ltd.—or ACCL—in 1995, and soon developed strong business growth and acceptance within the Chinese public. Amway has invested US\$100 million in China, making us one of the largest investors in China. Our plant was the first chemical facility in China to be

given ISO 9000 certification. By providing business opportunities to Chinese citizens, Amway is helping to meet the country's employment and income needs while training people in basic business skills. ACCL consolidated sales reached US\$178 million in 1997 with over half-a-million Chinese distributors.

As Amway began to succeed in China, others tried to emulate our operations and direct selling companies began to proliferate. Although most of these were legitimate operations, several con-artists established operations that included "pyramid" schemes and inventory-loading scams. In April 1998, responding to demands from Chinese citizens who had lost large sums of money in what is called chuan xiao—literally "chain selling"—the Chinese government announced a ban on all forms of chuan xiao in China. Because Amway was licensed under chuan xiao regulations, we were forced to halt operations.

We were told that we could resume operations by opening retail shops. However, because the founders of the company had been distributors, they understood the hard work and effort that goes into building a successful business. They had long operated the company with a pledge to distributors that the company would not compete with them. To "go retail" would have caused the company to break faith with three million distributors around the world.

Amway worked with the Chinese government to explain to officials that a properly regulated direct selling industry could contribute to economic growth without exposing Chinese citizens to fraud. In June, two full months after the ban was imposed, Chinese officials announced new regulations that permitted us to reopen in a manner that allowed us to maintain our obligation to our distributors. Amway was the first company to be re-licensed under these rules. Our business is again growing and we now operate in more than 20 provinces and four direct municipalities in China.

Although this was a difficult challenge, we came away from it with greater respect for and a better understanding of the Chinese government. The government demonstrated that it would respond to the demands of both its citizens and foreign investors. Notwithstanding the sudden imposition of the ban, the process demonstrated a commitment on the part of Chinese officials to the rule of law.

Some critics portray China as a totalitarian dictatorship obsessed with control. Our experience has given us an insight into a far more complex situation. China is striving to adapt to the modern challenges in a way that respects a complicated and conflicted history. In this context, it is possible to work with the Chinese government, provided that you do so with patience, sophistication and respect for internal political priorities. It is axiomatic that all politics is local. Our problem was resolved because the solution was consistent with internal political realities as well as the operational imperatives of direct selling companies. By the same token, we must now proceed to address both the problems and opportunities in US-China relations with patience, sophistication and respect for the political dynamics in China as well as the United States. All of these issues can be resolved in a manner that advances US interests if we remember that the solution must be politically acceptable both here and there.

CURRENT CHALLENGES

Allow me, Mr. Chairman, to say a few words about the recently released report on US national security concerns with respect to China as outlined in the report filed by Congressmen Cox of California and Dicks of Washington. These concerns about Chinese espionage and illegal transfers of US technology are quite grave. We believe that the allegations are the result of a serious investigation and that they should be analyzed carefully. Make no mistake: The business community is strongly committed to protecting US national security interests. Individuals or companies that have compromised our security must be held accountable to existing laws.

The Chamber strongly believes that a healthy and competitive technology industry is essential to enhancing national security. Revisions to our export control regime must be carefully calibrated to ensure that essential and critical technology is safeguarded. Yet, in that regard, we must not allow our reach to exceed our grasp. A control regime that strangles US industry not only saps our economic strength, it wastes precious national security resources on efforts to control technologies that are freely available in the international marketplace. Congress faces a clear challenge: It must strengthen the regime that guards critical technologies while permitting sales of those products that do not put our national security at risk.

Our relationship with China, as with other nations, will always remain dynamic. While there are problems at present, such as the evidence of apparent espionage

and the NATO bombing of the Chinese embassy in Belgrade, it is important to note that there are opportunities as well.

I was encouraged by a letter that Senator Max Baucus and 29 other Senators recently sent to the President. The message in that letter was compelling. While the United States must not ignore the challenges of our relations with China, we must examine each aspect of the relationship in an objective manner to determine what is in the best interest of the United States and then act accordingly. The letter concludes that our best interest is served by the rapid conclusion of the WTO talks and extension of permanent NTR status to China. These actions will secure an unprecedented opening of China's market to US agricultural products, services and manufactured goods.

CONCLUSION

The US Chamber believes we have a window of opportunity to conclude the negotiations on China's accession to the WTO, extend permanent NTR status and secure broader and more consistent access to China's market. As I noted at the beginning of my remarks, these have been longstanding goals of the US Chamber. We believe it would be a tragic mistake to forego this opportunity.

Mr. Chairman, this concludes my formal presentation. Thank you. I would be happy to respond to any questions.

Chairman CRANE. Thank you, Mr. Van Andel.
Mr. Sternberg.

STATEMENT OF SY STERNBERG, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, NEW YORK LIFE INSURANCE COMPANY

Mr. STERNBERG. Thank you, Mr. Chairman. I am Sy Sternberg, chairman and chief executive officer of New York Life, a Fortune 100 company and one of the largest U.S. life insurance companies. I am honored to be here today to discuss the importance of international trade with China for United States insurance companies.

The U.S. insurance industry is at a crossroads. The domestic life insurance market is mature with annual growth in the purchase of insurance policies averaging 1.5 percent over the past 10 years. Some of our peer companies are responding to market realities by expanding into financial services, brokerage, and banking. We have determined, however, to stick to what we know best, insurance. We intend to leverage our skills in actuarial science, in underwriting, in insurance sales to expansion into international markets. Over the next 3 years, New York Life will invest more than \$1 billion in high-growth, emerging, international markets.

We have already established businesses in Taiwan and Hong Kong, Korea, Indonesia, Argentina, and Mexico. Our highest expansion priorities are China and India. China is by far the largest insurance market in the world. It is currently closed and underserved. With more than 20 percent of the world's population, only 30 percent of the Chinese currently have any type of insurance. There is an emerging middle class with a 40 percent savings rate and increasing disposable income. China is an ideal market for life insurance.

If New York Life were to gain just 1 percent of the potential market in China, we would more than double our existing client base. Today we cannot do business in China because the market is closed to insurers that do not have licenses. Only 3 U.S. life insurance

companies have been granted licenses over the past 10 years. They have been restricted to two cities, cannot sell group life, health, or pension products, and must partner with a Chinese insurance company. We need a WTO Agreement to open the market.

The good news is that Ambassador Barshefsky has negotiated an outstanding agreement. Upon accession, licenses will be available to all companies based on established, prudent, and published criteria. Twenty-four of our highest priority cities will be open by January 2003 and all of China by 2005. Foreign insurers will be able to offer a full range of products by January 2005. Joint venture partners will no longer be narrowly restricted to Chinese insurance companies. Life insurers will be able to own 51 percent of joint ventures by January 2001.

This is a world-class, very forthcoming agreement with high standards for market openness and rules-based discipline. Frankly, it offers some concessions that are better than those available from existing WTO members. This deal should be done. It is a win-win. We hope that the United States and China will shortly resume negotiations and conclude the bilateral agreement and, if they do, we urge Congress to extend permanent NTR status to China so that America's insurance companies can reap the benefits of the agreement.

We recognize that there are extremely important issues other than trade that are on the table now. There are serious issues regarding U.S. national security, the accidental bombing of the Belgrade Embassy, and human rights and religious freedom in China. Responsible business leaders cannot ignore the very real problems between our two countries. However, we are convinced that problems in one area can be resolved on their own merits without damaging our overall policy of engagement or undermining our position on issues still in conflict.

WTO is not a gift to China. Let me repeat that. WTO is not a gift to China. American businesses across the board will directly benefit from China's accession to the WTO. And we also believe the benefits in the trade arena will actually advance the broader agenda of political, legal, and economic reforms which we all want to see. Accession to the WTO will facilitate the development of the regulatory infrastructure necessary for an open and competitive market in China. Agreeing to live by the rule of law will facilitate a legal system in which claims between competing business entities can be fairly adjudicated. Submitting to competition and regulation will help advance democracy as China becomes part of the global economy. WTO accession will introduce an international set of standards that will facilitate the development of the rule of law and a legal infrastructure throughout China.

I would like to thank Chairman Crane and Ranking Members Levin and Rangel for their leadership in holding today's hearing and giving me the opportunity to present the position of New York Life and the insurance industry. Thank you.

[The prepared statement follows:]

Statement of Sy Sternberg, Chairman, President, and Chief Executive Officer, New York Life Insurance Company

I'm Sy Sternberg, and I'm Chairman, President, and Chief Executive Officer of New York Life Insurance Company. We are a Fortune 100 company and one of the

nation's largest insurance firms. We have operations in all 50 states and overseas through a network of 12,000 employees and 10,000 agents. Our assets under management in 1998 were \$122.6 billion and our revenues topped \$19 billion.

We are committed to strengthening New York Life's presence in the international marketplace and believe strongly that United States leadership on international trade is essential to achieving our goal. For this reason, I'm honored to be here today to discuss the importance of international trade with China for U.S. insurance companies; our assessment of China's WTO offer; the very significant benefits for the United States once China enters the WTO, and, equally critical, the granting of permanent Normal Trade Relations (NTR) status with China.

THE IMPORTANCE OF INTERNATIONAL INSURANCE MARKETS

To appreciate the importance of international trade with China to companies like New York Life, it is critical to understand the nature of the United States insurance business and its trends for the future. We have a very mature domestic market with the vast majority of American families already depending on life insurance to provide economic protection. The most recent data available indicates approximately 85 percent of all married couples in the United States own some form of life insurance to protect their families.

With this level of market penetration and the demographics of our aging population, it's understandable that industry-wide trends for life insurance sales in the United States are modest. For example, the face values of life insurance purchases over the past 10 years have increased only 3.8 percent annually. During this same period, the annual growth in the purchase of individual policies has been just 1.5 percent.

These low rates, combined with flat growth projections over the next 25 years for United States insurance sales, would not allow us to expand our businesses and to strengthen our future financial competitiveness. New York Life, and most other major American insurance firms, must look to the global market to achieve those goals.

That is why after 154 years of successful operations, we are interested in doing business in a country half a world away. New York Life needs to become a significant international player to sustain our financial strength well into the next century.

We are financially well positioned for expansion. In 1998, New York Life had a banner year. We added more than \$1.3 billion to our surplus and investment reserves, the largest, single-year increase in our Company's history. With our surplus and investment reserves totaling \$7.7 billion, we have one of the industry's highest surplus-to-assets ratios – 8.5 percent. In addition, we were number one in the country in new life insurance sales in 1998.

In addition, we have the core skills needed to build life insurance businesses in emerging, high-growth, foreign markets. Since 1845, life insurance has been our most vital and valued product. It fulfills a unique social responsibility for which there is simply no substitute. New York Life's core competencies—actuarial expertise, underwriting and marketing—are unmatched and will be leveraged in emerging global markets.

THE IMPORTANCE OF CHINA AS AN INTERNATIONAL INSURANCE MARKET

Working from our international base of operations in Argentina, Hong Kong, Indonesia, Mexico, South Korea and Taiwan, we began in 1997 to pursue a number of initiatives to give our Company a stronger international presence. We conducted a comprehensive review of potential overseas markets with emphasis on demographics and market size; competitive intensity of the insurance marketplace; and, the regulatory and political environments. Worldwide, we identified seven countries as having immediate potential for New York Life. China was one of these prime markets.

China is by far the largest insurance market in the world that is currently both closed and under-served. Its demographics of 1.2 billion people—with 26 percent under age 14 and 68 percent ages 15 to 64—make it the world's premiere market for financial security in the form of life insurance, annuities and pensions. Only 30 percent of the Chinese population currently have any type of life insurance. And while the 1997 per capita GDP was \$3,460, the annual savings rate has averaged more than 40 percent. Thus, with more than 20 percent of the world's population, China accounts for less than .02 percent of the world's current life insurance market. Were New York Life to capture just one percent of the potential market in

China, we could more than double our existing customer base. And a strong global presence will inevitably enhance our ability to serve domestic markets.

Unlike most of my colleagues here today, New York Life does not currently do business in China. Since 1994, we have been engaged in a series of preliminary steps to demonstrate our qualifications and our long-term interest in the country. We have concluded that our ability to secure a license is considerably increased by China's entry into the World Trade Organization (WTO).

It is within this context that I come before this committee to express my strong support for the completion of the U.S.-China WTO bilateral negotiations, the accession of China to the WTO and the granting by Congress of permanent NTR status to this country.

THE IMPORTANCE OF U.S.-CHINA RELATIONS

We fully recognize that this is a critical time in our relations with China. The public policy debate surrounding the aftermath of the accidental bombing of the Chinese Embassy in Belgrade and the release of the Cox Committee report has raised legitimate questions about Chinese intentions and how the United States should interact with the world's most populous nation. Some voices are suggesting that these concerns are reason not to proceed with China's WTO accession. At New York Life we believe these issues should be resolved on their own merits and in their own arenas.

The arena for economic and commercial issues is the WTO. There is no question that it is in America's strategic interest to bring the world's largest emerging economy into the WTO legal framework. The WTO is the foundation of an open, rules-based international trading system, and membership is a privilege not a right. WTO membership requires a country to meet standards of market openness and agree to apply WTO rules, including the rules of dispute settlement. They provide a credible and effective tool to enforce United States rights, backed up by the threat of WTO-authorized sanctions for non-compliance.

WTO accession is America's best means of opening the Chinese market and ensuring the continued development of China's legal infrastructure. It's a vast improvement over our current trade destabilizing approach to gaining market access in China—an approach that relies on piecemeal, bilateral agreements and the threat of unilateral sanctions. It permanently locks China into an open, transparent, non-discriminatory trade regime enforced by dispute settlement procedures.

Reducing the trade deficit and guaranteeing that it lives up to its agreements does not require us to punish China by keeping it outside of the system of global trade rules. As the largest emerging economy in the world, China's integration into the rules-based international trading system is essential to ensuring that it undertakes the obligations and responsibilities of the trading system from which it benefits. Its accession into the WTO's legal framework will create new incentives and pressures for it to undertake economic and regulatory reforms and to abide by international trade rules.

New York Life also maintains that if China and the United States conclude an acceptable accession agreement, we will firmly support the extension of permanent NTR status to it. NTR status is not a favor for China. It simply provides to that country the same treatment the United States offers virtually all of its trading partners. More importantly, the United States will not receive the full benefits of China's WTO market access commitments until it takes this step. WTO accession requires the reciprocal extension of permanent NTR status by the United States and China, and with that reciprocity we can end the need for the divisive annual debate in Congress on NTR status renewal.

THE RECENT WTO NEGOTIATIONS

New York Life, like most observers of the China WTO accession process, was discouraged last year when it appeared Beijing was reluctant to make the hard decisions necessary to complete the negotiations. We had hoped the momentum in bilateral relations sparked by the exchange of state visits in October 1997 and June 1998 would create the impetus needed to conclude the decade-long negotiations. But we also had consistently maintained that China should not be allowed into the WTO for political reasons, nor should it be kept out of the WTO solely on that basis.

To ensure the Administration understood our position, the insurance industry developed a priority agenda for the USTR to pursue. We developed this agenda working with the American Council of Life Insurance, the U.S. Chamber of Commerce, the U.S.-China Business Council, the Emergency Committee for American Trade

(ECAT), the Coalition of Service Industries and the U.S. Committee of the Pacific Basin Economic Council (PBEC-US).

By working with organizations representing a broader coalition of American trade interests with China, New York Life is confident that the insurance industry's objectives were consistent with the principles sought by other United States industries. These include full market access, national treatment, transparency, and high levels of WTO discipline.

We believed our objectives would enable us to be competitive in China and allow our potential Chinese policyholders to enjoy the full benefits of our insurance products. We also believed and made clear to the Administration and the Chinese that an agreement satisfying one industry, but failing to address the issues of other core industries, such as agriculture or telecommunications, would not win broad support. Finally, we made it a point that negotiations yield immediate real benefits on market access to all sectors of the United States economy.

Ambassador Barshesky has secured Chinese commitments that, pending WTO accession, will address the great majority of our industry's market access objectives. For example:

Today, New York Life and most other American insurance companies are not allowed access to the Chinese market. The process by which China has awarded insurance licenses has been both unpredictable and non-transparent. But once the WTO agreement is implemented, China will award licenses on the basis of established, prudent and published criteria without imposing an economic needs test. Insurance firms will know in advance the process for securing a license.

Today, insurance firms with licenses in China can pursue business in only two cities—Shanghai and Guangzhou. But once the WTO agreement is implemented, all of China will be opened to foreign insurers by January 2005. In the interim, 24 of our highest priority cities will be opened by January 2003.

Today, foreign insurance firms operating in China are not allowed to offer the full range of their products. But once the WTO agreement is implemented, foreign insurers will be able to sell group life, health and pension lines of insurance by January 2005.

Today, foreign insurance firms in China are limited in their form of ownership and are restricted in their choice of joint venture partner. But once the WTO agreement is implemented, joint venture partners will no longer be narrowly restricted to Chinese insurance companies and foreign firms will be able to select their own joint venture partners. In addition, life insurers will be able to own 51 percent of a joint venture by January 2001 and non-life insurers can have 100 percent ownership by January 2002.

This forthcoming agreement represents an historic breakthrough for the United States insurance industry in China. Did we get everything we wanted as quickly as we wanted it? No. But the nature of negotiations is predicated on compromise, and this agreement is truly a "win-win." American insurance firms will have the opportunity to enter the Chinese market and to compete. Chinese consumers will benefit from this competition and from the wide range of new products and services we will offer. Even the Chinese insurance firms, which have enjoyed the protection of the current restrictions on foreign firms, will benefit from the professionalism and innovations we will bring to their marketplace.

Finally, through its market opening commitments, China is sending a strong signal to foreign investors that it is moving toward the rule of law in trade matters. China's current WTO offer eliminates an array of Chinese barriers and creates new opportunities for American businesses, farmers and workers. China's offer is a comprehensive market opening agreement on agriculture, sanitary and phyto-sanitary barriers, industrial products and services. It has agreed to a series of bold steps including significant and permanent tariff cuts, elimination of most import quotas, application of national treatment, extension of trade and distribution rights, greater access for information technology and telecommunications firms, and resolution of longstanding agricultural disputes over meat, citrus and wheat.

But we face one problem. The incredible progress achieved by USTR cannot begin to be translated into market access for American exports unless and until the United States bilateral agreement is completed and the remaining negotiations on China's accession are finalized. Over the past several weeks, in our meetings with the Administration, Members of Congress and with Chinese officials, New York Life has communicated our clear position that both sides should wrap up the talks on the bilateral market access package as quickly as possible. Otherwise, the concessions gained from China could be lost, the momentum of the negotiating process could be lost, and the Chinese agreement to play by the rules could be lost. Frankly, a great deal is at stake here.

My Company has been actively involved the Business Coalition for U.S.-China Trade. We have also been working with members of Congress to increase understanding of the benefits that would accrue to the United States economy from an agreement. We look forward to working with members, including those of this committee, to develop a broad bipartisan coalition in support of China's WTO accession and extension of permanent NTR status.

CONCLUSION

We have not adopted our position lightly. New York Life acknowledges the serious issues regarding United States national security, Asia-Pacific stability, and human rights and religious freedom in China. But as I've said, we believe that these issues should be resolved on their own merits, in their own arenas, and that it's a false choice to suggest our relations with China are a zero-sum game.

Few business decisions or life decisions are black and white, and I believe leaders in the business community and the American public will reject this either/or mindset. The choices facing the United States and China are complex and nuanced. Solutions will not be found at the polar ends of the debate.

No matter how strongly some may suggest that American business is seeking profits at the expense of other important American interests, we believe it would be a mistake to turn back the clock on the 25 years of improvements in U.S.-China relations. Major gains have been made on security, trade, nonproliferation and human rights issues precisely because of the engagement policy pursued by all Administrations and Congress since 1973.

Responsible business leaders do not ignore the very real problems between the United States and China. However, we are convinced that problems in one area can—and should—be resolved without damaging our overall relations or undermining our position on issues still in conflict.

The common ground that has been achieved on economic and commercial issues between the United States and China should not be held hostage to other important, but unresolved, issues. Moving forward in areas where both sides can and do agree might well improve the chances of success on issues where agreement has not been reached. In fact, China's accession to the WTO will significantly advance the broader agenda of political and legal reforms which we all want to see in China.

Promoting American values does not require us to cut off interaction with China. Indeed, moving China toward internationally accepted standards of conduct is more likely to be achieved if China is exposed to Western values, ideas and commerce. Such exposure will strengthen further the economic and political forces that are changing Chinese society.

The WTO understanding announced in early April is the culmination of 12 years of hard work and constant pressure. It is not a "political deal" or a gift to China. The concessions are all China's—a fact perhaps not yet fully understood. China will earn its place at the table in Geneva the "old-fashioned way," by providing genuine access to its market and by its commitment to accept the rules and standards of the international trade regime.

There seems little doubt that if we do not conclude the bilateral agreement, prospects for China's WTO membership will fade for several years. The next global trade talks, set to be launched in Seattle next December, would take place without the benefit of China's participation and it would remain outside the system of trade rules for an indefinite period of time.

Finally, we urge members to recognize that even with China's market access offer in place, America's firms, farmers and workers—your constituents—will not reap fully the benefits of the agreement unless we extend permanent NTR status to China.

Thank you.

Chairman CRANE. Thank you, Mr. Sternberg.
Mr. Smith.

STATEMENT OF FREDERICK W. SMITH, CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER, FDX CORPORATION, MEMPHIS, TENNESSEE

Mr. FREDERICK SMITH. Thank you, Mr. Chairman. We have submitted a written statement. My name is Frederick W. Smith. I am the founder of Federal Express and the chief executive officer of FDX, which owns Federal Express and a number of other transportation companies. On behalf of our 185,000 employees, who are, like those UT employees, very high wage earners, we appreciate the opportunity to appear before you.

We have a major interest in China as the largest United States all-cargo air transportation company. In fact, we are the world's largest all-cargo carrier operating some 625 airplanes, 60,000 trucks, and handling some 5 million shipments per day throughout the FDX companies. The primary things which we transport are all of the high-tech and high-value-added items that are making America prosper: The electronics and computers, the fiberoptics, the pharmaceuticals, the medical drugs, hospital supplies, and so forth.

Although air transportation only accounts for about 2 percent of the pounds moved in worldwide trade, it accounts for about 40 percent of the value. And if you take out petroleum and agriculture, it is almost 60 percent. So when you think about international trade and trade to China, you should think more about our airplanes as the clipper ships of the computer age rather than container ships.

In China where we operate as one of three United States air carriers and the only all-cargo air transportation company—the other two carriers being Northwest and United—we face formidable barriers doing business. Particularly in our ground operations, our interface with customs, all of the distribution problems that have been commented upon earlier by some of the panelists. We congratulate Ambassador Barshefsky and her team on negotiating this WTO Agreement because, at the end of the day, it would eliminate many of the problems that we have experienced, including our current difficulty in getting our joint venture for the integral ground operations for our air system approved.

It seems to me that in the last 10 years since the Tiananmen incident there has been significant progress in liberalization in China and I noted the other night, watching some of the student leaders of that period of time on television, how adamant they were about those improvements in China. And we feel very strongly that the proper approach for the United States is to continue to engage China, not to try to turn them into an enemy, and to use trade and business relationships as a liberalizing force which will correct many of the problems that have been brought up here today.

So we very much appreciate the opportunity to appear before you and I take pride in quitting before the green light goes out. [Laughter.]

[The prepared statement follows:]

Statement of Frederick W. Smith, President, Chairman, and Chief Executive Officer, FDX Corporation, Memphis, Tennessee

Mr. Chairman and Members of the Committee, I am pleased and honored to have the opportunity to speak before you today on China's accession to the WTO. I can

think of no single issue of greater importance to the long-term health and viability of the world trading system. The direct and indirect implications for American business and the America economy are profound.

At the outset, let me state that the position of Federal Express is unequivocal. FedEx supports China's accession to the WTO and, with it, the extension of permanent Normal Trade Relations (NTR) rights by the United States to China—just as we have with every other major trading partner. Simply put, China's accession to the WTO will move China's economy toward integration with the global economy, and this is good for American business. I have conveyed this view to Ambassador Barshefsky, whom I want to commend for having done an outstanding job in concluding this agreement.

I am particularly encouraged at the liberalization scheduled for the distribution field. With China's WTO accession, FedEx will be able to sell our services directly in the market place in four years, instead of leaving it to agents. Whether we choose to exercise that right, would depend of course on market conditions. But that's the point, isn't it? With China integrated into the WTO, our decisions on how to operate in China would be based on commercial considerations, not determined by government fiat.

Let me try to describe my perspective on the question of China's WTO accession by briefly relating the role of the air express industry to trade facilitation; outlining the obstacles we face now in China; and assessing how WTO accession affects our situation.

Even within our own country many do not realize the rapidly changing nature of world trade and the increasingly critical role of integrated air express. At present almost 40 percent of the value of all world trade goes by air. Representing only some two percent of the tonnage of trade, air shipments clearly account for the high value end of production.

Today's trends in e-commerce and just-in-time logistics underlie the phenomenal expansion of the integrated air express industry and reinforce growing requirements for fast, time-definite transportation of cargo from door-to-door. Air express is both a cause of, and a response to, the changing nature of competition in international markets. The ability to ship packages to destinations around the world in only hours or days widens the field of competition in all industries and accelerates the pace of commerce.

No country can expect to operate a modern economy of be at the forefront of trade in the 21st century without a strong air express service. China is no exception. At present, outside of WTO discipline, China is a hodgepodge of regulatory barriers to efficient air express service. Let me cite a few.

Currently, foreign-owned companies are not allowed to conduct customs brokerage and clearance, ground transportation, warehousing, consolidation, forwarding, or related services. These functions, which lie at the heart of an integrated air express carrier's operations, all have to be conducted through joint ventures or agents and this means that the foreign integrated carrier loses control of the process. For a company like FedEx, the loss of control over these functions, jeopardize our ability to guarantee time-definite service, the essence of our products.

Joint venture regulations raise further disincentives. We are prohibited from taking a majority share of a joint venture and are limited geographically in where and how fast we can expand joint venture operations. As a non-majority partner, we do not control the sales force, must negotiate investment decisions and have no guarantee that introduction of new technology will yield optimum returns.

There may be good reasons to have an agent of JV partner for some functions in the distribution chain, but the decision should rest on commercial interest not regulatory restrictions. The net result of these artificial barriers is increased prices for our customers, lower quality of service and limits on growth—for the integrated express carrier and the Chinese economy.

How does China's WTO accession affect this? Simply put, the restrictions I have noted above in the distribution field would be removed within four years. FedEx would be able to set up wholly-owned subsidiaries and, for the first time have the opportunity to provide the same standard of service to customers in China that we do in the United States and elsewhere in the world.

Of course, some will say that the Chinese may not keep their commitments. But, at least, if China were a WTO member, it would have to justify its actions before that body. The more a part of the system China becomes, the more the outside factors influence its behavior. In other words, the costs of non-compliant behavior go up. That is no guarantee of implementation, but it is an important, even critical, step in creating a more open, user-friendly economic environment in China. At present, if we encounter problems, there is no recourse to any system other than

the homegrown variety. I prefer to take my chances in the more transparent WTO environment.

Finally, let's consider the alternative: a world trading system which excludes China. Does a China less subject to the discipline of the World Trade Organization transform itself more or less quickly into a responsible member of the world community? Does more or less contact with China influence it in a positive direction? Does attempting to isolate China from the responsibilities of WTO membership advance anyone's interest but those who oppose reform and a more modern, open China?

I think the answers to these questions are self-evident. Few would dispute that China has changed for the better in the past twenty years and that the lives of individual Chinese have improved. Livelihood, freedom of choice and, gradually, even human rights have become better not than at any time in modern Chinese history. The trend toward openness and reform is in the right direction, and American business has been a positive force for change.

I believe the continuation of this trend is in the interest of everyone and that China's accession to the World Trade Organization and the establishment by the United States of permanent, normal bilateral trading relations with China is fundamental to its achievement.

Thank you.

Chairman CRANE. Well, we thank you for your testimony, all of you. Out of curiosity, Mr. Smith, I had heard you folks had the address of the Chinese Embassy in Belgrade. Is that correct? [Laughter.]

I am not kidding.

Mr. FREDERICK SMITH. We could have probably found it, Mr. Chairman.

Chairman CRANE. Seriously, you and the UPS had it and the CIA couldn't update it in 6 years.

Well, at any rate, we appreciate your testimony. I have a question for all of the Members of the panel and we have heard some input about labor conditions and worker rights deteriorating in China and, on the other hand, American businesses that have been operating in China have come back with much more positive comments on worker conditions, in no small measure because of our presence there. What is your general assessment of that?

Mr. GEORGE FISHER. I might comment on that. I think George David appropriately said when we, in fact, put up factories in these countries, we bring with us the environmental standards that we practice in this country, the labor standards, all the general good conditions that exist in this country are carried with us. Safety, for instance. We are building a factory now where we have 5 million hours without any lost time from injury, which is an all-time record in putting up a factory in China. And some of our environmental records now on the chemical side are unlike anything China has ever seen. And they have set new standards of performance. I think all of these companies that deal there—all of the Western companies—can probably say about the same thing.

Chairman CRANE. Would you all concur with what George just said?

Mr. DAVID. Yes, sir.

Mr. MCGRAW. Yes, sir, Mr. Chairman. I would only add that they are representing for the most part the heavy manufacturing and agricultural side. From the information business side, it is still very, very thin. We have no problems in terms of the types of workers that we are able to attract. Our concerns here are much more

in the intellectual property rights and the enforcement of those property rights.

Chairman CRANE. Well, here's the reason I posed that question. I have Motorola's corporate headquarters in my district and they told me some time ago the same thing you just said, George, that you have to maintain clean working conditions, health benefits for employees, and pay for overtime work. And they went a step beyond and built a huge apartment complex that their employees can move into after 5 years. After 10 years they can own their own apartments. And I asked them at the time, did you impose these conditions from back home? Just unilaterally bring them here? And they said, no, that was Chinese law for companies that were coming in from the outside.

But my understanding is that it doesn't apply universally to domestic Chinese companies. And the observation I made at the time and have made many times since is that if I am working for Motorola in that kind of a situation and Sandy's working in some grungy Chinese factory that doesn't have to live up to any of those standards and we are having Tsingtaos after work and he is moaning about his working conditions, I would say, logically, hey, Sandy, why don't you come work for Motorola?

And Ben Franklin made that observation: A good example is the best sermon. And my contention has been that our presence over there is that good example that is the best sermon, helping to get that message out. So I want to just pay tribute to all of you. Keep the faith. Fight the good fight. And, with that, I will yield to my distinguished Ranking Minority Member Mr. Levin.

Mr. LEVIN. Well, now that you have opened the subject, let us talk a little more about it because it is one of the issues here and I think we need to be very clear. And I say this with all respect. Some of us know each other pretty well and I admire the efforts we have worked on trying to break down barriers in Japan, for example, and some other trade issues. But when we talk about bringing environmental standards to another country, that may be one thing. But when we talk about bringing labor standards, worker rights, I do think we ought to understand the limitations and the differences. You are not bringing the ability of workers to associate. Right?

Mr. GEORGE FISHER. Is that your question? What we try to bring is a basic value system, which is, perhaps, thought to be very Western, but respect for the dignity of the individual, uncompromising integrity in everything all of our employees do, trust, credibility, and continuous improvement. It is based on this very basic set of human values that we build a culture.

Mr. LEVIN. And I deeply respect that, George, but I think part of the issue here is as we integrate this huge Chinese economy, which is structured so differently, I think we ought to be very open about the differences and the challenge. Because the workers within your plants don't begin to have the rights that is true of American workers. So I think there should be—

Mr. GEORGE FISHER. Well, Sandy, I think you should ask the people in our factory before you assert that, because—

Mr. LEVIN. Well, I have been in some of the factories—not yours—and in no factory I have been in China do the workers have

the full right to associate, the full right to bargain collectively. In most of these factories, the union is government-dominated. In several factories that I have been in, the State enterprise has shadow—at least one of them—has shadow participation in business decisions, let alone a free labor market set of circumstances. And so I do think that we need to understand these differences, and they are vast between China and the United States in terms of labor market issues.

In terms of capital, there is no doubt progress was made in the negotiations, in terms of ownership of joint ventures. There is a reference here to movies. It is 40 movies. And I agree that it is better than zero. Foreign films, right, Mr. McGraw? There is a limit, 40, and it goes up a certain number every year. But this is not a free society.

But let us go back to the labor market issues. There was a reference here to twice the prevailing wage. Mr. David, the prevailing wage is what? In your factories?

Mr. DAVID. The figure is twice the average wage, which is about \$2.50 an hour.

Mr. LEVIN. All right. So let us put that in perspective because, for example, in the steel import surge, you were talking about steel that was being produced in China when workers were being paid \$1.25, \$1.50 an hour. And they are being paid \$15, \$20, or \$25 here. And the question becomes for the typical worker in the business that feeds into the American steel industry that can't lift up and go immediately to another country, how am I going to compete? And that raises the whole issue of dumping and countervailing duties, and so forth.

And I raise it because I don't want us to ignore the challenges of putting together these two very different structures. And I wish that, in a sense, this panel were mixed with the next panel so that you would have the kind of discussion that I think needs to be sparked.

Let me suggest the same is true—and I wanted to ask, in terms of enforcement—and maybe Mr. McGraw or Mr. Fisher or somebody wants to comment on this. It is true that there will be fewer barriers on paper than Japan, I think, at least in some areas. Japan is going to have a tighter—still has a tighter set of informal restrictions. I am not sure how strongly the informal restrictions would be in China. But there is a vast difference in transparency. And—

Mr. GEORGE FISHER. Which way?

Mr. LEVIN. I think we are going to have more trouble figuring out what is going on in China, in many respects, than we do in Japan. I mean, it is not a rule-based society. It has a restrictive flow of information. I think that is of concern to all of you. It is in terms of intellectual property, right?

To this day, we are not exactly sure—when I was there last time, it isn't really clear what is going on in terms of pirating, right?

Mr. MCGRAW. But we have some numbers. Just in terms of U.S. book publishing activities, we are estimating that somewhere around \$685 million is pirated in the world today. But, of that, \$125 million—that was just in the last year—\$125 billion of that was coming out of China. So the proportion is so much higher.

Mr. LEVIN. All right. And it is not easy to gather information in China.

Mr. MCGRAW. It is difficult.

Mr. LEVIN. I just want to alert you—I want everybody to be realistic. You bring them into the WTO. Mr. Fisher, as we found out—you found out better than anybody else—in the Kodak case, it is one thing to have a right, it is another to be able to enforce it. And the problems that related to Kodak in Japan, as misguided as I think the WTO was, they exacted a level of information that is going to be very hard to obtain when you enforce rights in China.

Mr. GEORGE FISHER. Sandy, I think you are right on how complex some of this could be. But I must say, at a very microlevel, both in my experiences with Motorola and with Kodak in China, that whenever I have had a good agreement, a good agreement being defined as not a lopsided one, good for both sides, that it has been very easy to get both sides to honor that agreement and I have never, never had a situation yet in China where I thought I was told one thing and it went the other way.

Mr. LEVIN. With intellectual property, that is really what has happened.

Mr. GEORGE FISHER. Well, intellectual property, as we all know, is one of the more serious issues. And it wasn't a question of having the laws, it was the question of enforcement on intellectual property. But I can tell you this, at least from the electronic side, it is getting better and better. And that is the whole story in China. 10 years ago, we would have this discussion and there would be horror stories all over the place. There still are. But things are a lot, lot better, even on intellectual property, today.

Mr. VAN ANDEL. I know even with our organization—I am a little different than others around the table because I am probably more low-tech and everybody else is a little more high-tech—but I know that is really the point with our organization, too. I look at what we did. We built a factory in Guangdong province. We basically built a duplicate of what our factory is in Michigan. So we have some very good comparisons that we can make. Sure the labor rates per person may be lower in terms of the actual dollar amount. But the quality of life of our workers has improved compared to the quality of life that they had last year or the year before. And I think that is the point.

Mr. LEVIN. And I will finish because my time is up. I think there is no doubt that when someone is paid \$2.00 an hour, it is better than \$1.00 an hour. And I think that is a plus for the worker there. But let us remember, in arenas that will be increasingly competitive, there is legitimate reason for concern about the differential and whether, over time, market conditions will allow that differential to narrow. And that is why we need to talk this through and not have closed minds or just automatic polarization on these as well as other issues. And it is different, to some extent, in the service industries than it is in the industrial sectors. Thanks.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thanks, Mr. Chairman. Well, you know, there are always going to be differentials, no matter where we go. The differentials between New York State and the Deep South, Canada and the United States.

I think one of the most important things that I remember Mr. Fisher saying is that if you have a job here and you have a job there, it doesn't mean if you have a job there you are taking one away from here. You are actually creating a customer. So if you transfer a job overseas, you are putting that there, but also you are doubling the capacity—or some sort of increment—in this country. And that is a basic economic philosophy that is at work here.

We have several issues here. We have got the temporary approval vote, which will be a Full Committee vote, not this Subcommittee, for normal trading relations. And then we will have the adjustment, hopefully, of Jackson-Vanik. Because if Jackson-Vanik is not adjusted, then exceptions will be taken and we will not be able to enjoy the opportunities of the World Trading Organization. And then, ultimately, we will have the vote on a permanent normal trading relation.

But I think the critical question to me is to flip this thing around. Suppose we don't do this? What happens to your businesses? What happens to the jobs in this country? Maybe you would like to answer that question.

Mr. GEORGE FISHER. I'll—do you want to jump in? OK, let me just say, one aspect of the whole agreement being negotiated, really what we are talking about in many ways is a one-way agreement. The United States market is open to the Chinese. The Chinese market is not fully open to us. What we are talking about is really, I think, what Congressman Levin was talking about in terms of beginning a process. By starting and getting the World Trade Organization, we are starting to build toward that rules-based, market-based, trading kind of economy. If we don't do this, U.S. business is going to be seriously impaired in terms of being able to treat that economic growth in a region that is so populous and is going to have such opportunity.

So, I agree that we don't want an agreement of any sort. We want a good agreement, but not at any price. We don't want to oversell this. We are at the beginning of a process. But we want one in terms of engagement and one where we can begin to build toward a higher level of enforcement to make sure that we are all benefiting from this economic growth.

Mr. MCGRAW. And, Congressman—

Mr. VAN ANDEL. When you look at this agreement, it is an agreement for U.S. business. Absent permanent NTR status, we are excluded from the benefits while other countries gain an advantage. With permanent NTR we start on an even playing field. So it is really an agreement for us to have the same rules as the rest of the world.

Mr. DAVID. I would comment, if I may, as well, that first, I think the principal impact on UTC individually would be the aerospace sector. The aerospace sector in the U.S. runs about a \$2 billion annual trade surplus with China. I think it must easily be the sector with the biggest trade surplus. There are alternate foreign suppliers for engines and air frames and I think that in the event that NTR is not extended, that work would all migrate to Europe and the ultimate suppliers to China will be Rolls Royce and Air Bus.

Second, to reinforce the point I made earlier, there is a lot in this agreement for U.S. business. I think that the reduction in tariffs

from basically the 30-percent to 40-percent range down to below 10 percent is a tremendous plus for U.S. exports in the future. Also, not to minimize it, the provisions that would allow distribution companies to be American-owned and allowed to distribute U.S. imports into China, is a fundamental change. The current situation is a huge disadvantage for us today. These are two, very special features of the WTO agreement Ambassador Barshevsky has negotiated, which is a great agreement.

Mr. STERNBERG. Congressman, there are 70 insurance companies now waiting for licenses to do business in China and the process is not a transparent process, so without WTO, we might very well get the next license in a year or 2 or we might have to wait 10 years for a license. With WTO, that licensing would be transparent and most of the insurance companies that are requesting licenses would immediately get access to the Chinese market.

Chairman CRANE. Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman. I want to thank all of you for your testimony this afternoon, but I would like to direct my question to Mr. Van Anandel. And I understand that the Chinese Government has limited your operations in China to the extent that you cannot sell merchandise to distributors for resale. And do you believe that the Government of China either directly or indirectly is sending the signal that it objects to the entrepreneurial nature of your company or is objecting to its citizens being exposed to the concepts of entrepreneurship?

Mr. VAN ANDEL. You know, when they enacted the ban on direct selling, after the ban, they would allow us to open through traditional retail channels, through stores. They would allow us to operate back through stores. But in discussions with them, he showed them, actually, how our business enhanced the quality of life for citizens and that our distributors gained valuable business and entrepreneurship skills. After that they recognized that what we did for the citizens of China was what they needed. The training that we gave to the people in China was what they were looking for.

And so we worked with them to create an ability to come back in and restart under a new mode that allowed us to keep our distributors in place. They recognized the quality, I think, of entrepreneurship or business fundamentals or training as a very important quality for them. And we were proud that we were able to do that.

Mr. CAMP. Your answer seems to say the government officials may have recognized some of that. What about the average person there and the whole concept of free enterprise and being exposed to free markets? Do you have any comment on that?

Mr. VAN ANDEL. Well, you know, it is amazing. As I have gone through different countries in different parts of the world, I always wondered whether our concept of free enterprise would translate into different markets. And I have watched it in China. I have watched it translate, although we talk about it a little bit differently. But the whole concept of owning a business for yourself, doing something for yourself. Owning your own business and becoming successful based on that is a concept that I have seen translate into every culture, including China.

Mr. CAMP. Well, thank you very much. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. I think before you even get to the whole question of accession to the WTO, to where we stand with normal trade relations with China, these days, because of all the other issues that cloud the relationship, we have to address that shadow that lurks there. I think we would be deceiving ourselves to believe that the politics of this country at this time, so close to a Presidential election, will allow us to talk solely in terms of pure economics and trade matters, with regard to what we do with China in the future and, obviously, with the WTO as well.

Having said that, I would associate myself with some of the remarks made earlier by Mr. Levin. But let me focus a bit on another aspect of the trade question which I think we can do something about, and I believe is essential for us to move in a very bipartisan, more conciliatory fashion in this country toward a healthy trade agenda. That would be dealing with the domestic components of trade.

This year we are supposed to reauthorize the Trade Adjustment and Assistance Act. The TAA has always been something that has been used domestically to try to offset the difficulties caused by our expansion of trade abroad. The problem is, it has never really worked very well, nor have many training programs for that matter. It has always made it difficult for anyone who has promoted trade to be able to point to the ability of our country and our economy to soften the impact for those that will lose jobs. I don't think anyone denies that we will lose jobs. We can't deny that we are going to gain a whole bunch of jobs as well as a result of trade. I think we all do ourselves a disservice by not doing more through private enterprise and certainly through the public means to try to address the concerns of those who may be dislocated.

At this stage, it seems to me that it would behoove those who are going to benefit most directly, most immediately from any expansion of trade, in this case with China, to look closely at the whole issue of TAA and how we can improve it to make it work, working with government, but also again, I think the private sector is such an important component of this. If the voice of the two can be merged so that we do a better job domestically of addressing the needs of those workers who do become dislocated, it will be in those lower skilled areas. We are talking mostly about folks who will be very difficult to retrain and placed in positions that will pay well. But if we don't deal with it, of course we'll deal with those very partisan on both sides of the aisle who produce 20-second commercials that show that American worker who lost his or her job, and use that loss as a reason we should not expand our relations with other countries.

I would hope that one of the things that we can all do, both those of us in government and those of us in the private sector, especially those who stand to gain by increased trade, would be to find a way to come together, merge some good ideas and see if we can try to improve on what we have right now with TAA so that at the end of the day, at least domestically, we can deal with some of those issues that are within our grasp. I don't know if we will be able to close the door on the issue of espionage any time soon, the whole issue of the bombing of the Chinese Embassy is going to haunt us

for a time. But certainly when it comes to a displaced American worker, I would hope that there might be some ideas brewing among those who are in the private sector to help us come up with some ways to try to deal with this as well.

If government is left to its own devices to try to do this, we will fail. We don't have the resources, nor do I think we have the ingenuity in government to do it by ourselves. It really will take the efforts of the private sector. Those that are most likely to gain, who don't have to worry so much about displacing workers in their own industry, I would hope would recognize that opening up that trade will benefit you all very much and bring back a little bit home, you know, put a little back in the domestic market. This will help you help all the rest come to terms with the whole issue of expanded trade. Hopefully it will be freer and it will be fairer for everyone.

I don't really have a question there. If anyone wishes to comment, I would open up the rest of the time that I have. If not, Mr. Chairman, I'll yield back.

Chairman CRANE. Mr. Ramstad?

Mr. RAMSTAD. Thank you, Mr. Chairman.

I want to thank all the distinguished business leaders on this panel for being engaged in this important issue. I think Mr. Sternberg, you best summed up the issue of WTO accession for China by saying that this deal should be done. It is a win-win. Of course it is. As one who has worked as a member of the bipartisan WHIP team to try to get this legislation passed, I do appreciate your active involvement as corporate leaders.

Let me ask any of the members of the panel a question, whether the annual uncertainty that we experience with the renewal of NTR for China hurts United States' businesses. This wouldn't obviously apply to any of you, but those businesses trying to enter the Chinese market—whether the uncertainty associated with renewal of normal trade relations each year is detrimental to those businesses trying to enter the Chinese markets.

Mr. STERNBERG. Congressman, it's not the uncertainty, but unless Congress grants permanent status, we cannot bring China into the WTO. WTO requires permanent NTR status. So all of the concerns that we have raised or the opportunities that we have identified that this country would get and our industry would get because of WTO entry by China, would not be available unless we moved from this annual approach to permanent NTR status.

Mr. RAMSTAD. I understand that, but hasn't over the past several number of years, hasn't the uncertainty created havoc? Certainly that's another reason why we need to pass permanent trade relations.

Mr. STERNBERG. Yes.

Mr. RAMSTAD. I don't think anybody would disagree with that.

Mr. STERNBERG. No.

Mr. RAMSTAD. Let me also ask, I think all of you, I would assume also do business in Hong Kong and Taiwan. Can any of you comment on what impact would it be on Hong Kong and Taiwan if the United States does not grant normal trade relations to China, or if China doesn't accede to the World Trade Organization.

Mr. MCGRAW. Well I would only comment that I think Ambassador Fisher said it correctly. I think that on the issue of Taiwan,

as soon as they fully met the requirements, I think the push is going to be to have Taiwan go for the WTO. So I don't see any problem from that standpoint. I just think it would be such a damaging blow to United States business interests to be locked out of such a major market like China, that that would be the overriding factor. But the influence on Taiwan I think would be a separate issue. Hong Kong is part of—

Mr. VAN ANDEL. Just to address Hong Kong, although Hong Kong is obviously a much smaller market than China. China talks about Hong Kong in terms of—even though Hong Kong is now a part of China—they talk about it in terms of being a single market but two systems, having the Hong Kong system and the China system. Hong Kong really operates economically independently as it did before. So I don't know whether there will be any impact one way or the other, depending on what happens with China, because it does operate independently.

Mr. RAMSTAD. Let me ask a final question of you, Mr. David, if I may, please. You touched on, I guess in response to the Chairman's line of questioning, the protection of intellectual property rights, which has been a real problem in China for a number of constituent businesses in Minnesota, which I represent. Certainly such protection is critical. Do you believe, and if so, how would China's WTO accession help in this regard, in terms of protection of intellectual property rights?

Mr. DAVID. I think the first comment I would make is that our own experience with intellectual property rights in China has not been adverse. In fact, we had one interesting and notable litigation over pirating of the Carrier trademark with five start-up, Chinese companies. Carrier, of course, is a proud name in air conditioning. We were able to get an administrative ruling with teeth that took effect within 6 months time. So our experience with intellectual property has not been adverse at all. I think that whatever we can do to continue to apply the pressure to bring China into the WTO, and thereby bring them up to Western standards, is going to be highly beneficial in the area of intellectual property protection, as in every other area.

Mr. RAMSTAD. A final comment before my time expires, Mr. Chairman. Thank you again for your active involvement. It is important. We need it to get this passed, to educate not only members of this panel, but the entire Congress. When we come, if we do, to action on fast track again, I hope the business community is similarly engaged, because last year the silence of business leaders was deafening in terms of fast track. That's one of the reasons we don't have fast track authority today. So thank you for your engagement on this issue. I hope you and your counterparts in American business are as active when it comes time for fast track.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman. I thank each of you for being here on this panel. This is an incredibly complex, controversial issue, certainly here in the United States and certainly with the electorate that all of us represent. But it is also, I believe, one of the most important issues to face our Nation, not only economi-

cally, but certainly with our relations with a country that represents 20 percent of the population of the world. I believe really the decision we have to make is are we able to stand isolated as the most powerful country in the world, as the leader of the free world, are we able to isolate ourselves? Is that in our advantage to isolate ourselves, basically? Or is it in our advantage to allow individuals like yourself to be able to enter into their society, to share with them, to assimilate into their society basically, the groundwork, the Judeo-Christian type of foundation that we have in our country that brings about the lessening of the human rights abuses that we see. I really see this as so much of the issue.

The area I represent in northern California is probably one of the most agriculturally rich, productive areas any place in the world. We grow a number of specialty crops, a very large percentage of them, including rice, a large percentage of peaches, walnuts, almonds, prunes. We cannot eat all the products that we grow. We are dependent on being able to export to other countries. It certainly seems to me that at a time when our duties for other countries, including China, to be able to export into our country are very low, the fact that we do not have agreements, that we are not working there to be able to bring their tariffs down, to be able to allow us equal access, I believe is completely and totally unacceptable.

So I believe there are a number of reasons why we need to be moving in a direction, hopefully that we are presently moving, and that I believe each of you is advocating. But with that, we certainly have our challenges. I would like to maybe just ask a general question. Given the large and growing trade deficit that we have with China, how do you respond to critics who argue that normal trade relation treatment has benefited China but not the United States? Would either of you like to comment on that?

Mr. GEORGE FISHER. I think that that would get at the essence of why we say the WTO Agreement is really a challenge to China. In fact, under the tariff reductions, our products become much more competitive. The opening of services in various markets, means we could sell more products. I think a good WTO Agreement like the one whose draft we are aware of, will in fact help us sell a lot more products there, and hence, have a significant impact on the trade deficit.

Mr. DAVID. Congressman, of course the agreement is still private, and so we are operating on some degree of inference, guesswork and rumor. But the flavor of everything that any of us has read is that the WTO draft agreement is decidedly pro U.S. That is, there are multiple, multiple concessions by the Chinese and practically none by ourselves. In fact, this agreement is a means of redressing part of this historic imbalance, where we faced 30 percent external tariffs going into China while they have had MFN or NTR tariff status on our side. I think that the important point is that NTR status is the device to get China into the WTO, which is the device to redress this historic imbalance.

Mr. MCGRAW. Congressman, I would just add a few points to that. The trade deficit can only get worse without resolution here and getting this agreement, and getting China into the WTO. I would also say that the United States has probably been the most

active in use of the binding dispute resolution mechanisms. I think that it's there, that you are going to start to begin to see more of the equity that you are talking about in terms of a level field.

Mr. VAN ANDEL. I would completely agree, that the WTO is what begins to level the playingfield with everyone. NTR is the means by which we get WTO benefits from China.

Mr. HERGER. Thank you. Those are the answers I was looking for. I mean basically it would seem like we have virtually everything to gain and very little to lose on almost all these scores. Hopefully again, we are looking at a nation that's been around for 5,000 years. It takes a bit of time to get them to evolve to the point where we are now. But I appreciate your involvement, both for what it will do, I believe, to help our economy and certainly the economy for my northern California district. But also I believe it is the right thing to do and helps speed up an improvement on human rights more than the other way. So thank you very much.

Chairman CRANE. Thank you.

Mrs. Johnson.

Mrs. JOHNSON of Connecticut. Thank you very much. Thank you all for your testimony. Welcome, Mr. David, it is a pleasure to have you before our Subcommittee.

I just want to say as an aside, after all of those attacks that I have taken on how do we compete with 25 cents an hour, it is very nice to know that we pay \$15 and \$18 an hour and export to China, and thank you very much, that we will export more if we can reduce tariffs of 38, 30 and 12 percent on a lot of our products and parts.

I also think it is very interesting that you really demonstrated quite clearly that more exports will flow to China as a result of this agreement as it appears to be shaping up rather than fewer. Your comment that China now imports a greater percent of its GDP than we do I think is very important, that over a short number of years, they have really become big importers. If they drop these barriers, they will become even bigger importers. That is very much in our interest.

But this issue of human rights is in the minds of many of my colleagues. I would like to hear each of you just talk briefly about how you believe the practices of your companies affect your employees' view of their rights and responsibilities as individuals. I thought, Mr. David, your comment about your enormous education project in China—certainly people with good education do see themselves differently and believe their future is different. But I know that a number of you are doing quite different things in the area of benefits, fostering home ownership and other things like that. So if you would just give us a little sense of what you see in your experience as the way in which people's view of their own self and their rights and opportunities is changing as a result of American policies in China and American corporate presence in China. I think that would be helpful to us.

Mr. David, do you want to start?

Mr. DAVID. Nancy, I might respond with a couple of anecdotes. I recall addressing employees at our elevator joint venture in Tianjin, which is the fourth largest city in China, about 3 years ago. That venture started in 1984. This was a typical Chairman's

speech. About halfway through, just because of the way the speech went, I had occasion to ask employees how long they had all worked for this company. I started out by asking, "how many of you were here from the beginning?" Every hand in the room went up. Every single one. The point of that, which I am subsequently going to rant about a little is that our employees never leave us in these companies. They love American employers.

I have a second story. I recall meeting the shop steward of one of Carrier's companies in Shanghai in 1986. She was rather, shall we say, hard-edged with me. I think she thought I was one of these "imperialist, yellow running dogs from America," or something like that. Today she is the deputy general manager. She was a ranking Communist Party official in 1986, and today I think she is pretty pro-capitalist, pro-Western, and pro-democratic. The reason is because her family has benefited from her participation and exposure to Western institutions and systems and beliefs. I think the way you do this, and I have seen it so much, is by rewarding seniority and commitment, and when people see it they like it. We know they are persuaded when they say, "We would like to see more of this." That's how we will change the minds of the Chinese people.

Mrs. JOHNSON of Connecticut. Does anyone else care to comment?

Mr. GEORGE FISHER. I think as I said earlier, that practicing of certain, you might call them Western values, but they are universal values, but particularly respect for the dignity of the individual in everything you do as a practice and continue personal renewal through education and training where people gain self respect, I think there is nothing more powerful than really continually relentlessly practicing and preaching those values. It works.

Mrs. JOHNSON of Connecticut. I was very interested in the comment about your experience with intellectual property rights problems. What about contract enforcement? China doesn't have a very strong contract law. So don't you find yourselves arguing about contracts all the time? Does arguing about it help gradually to build understanding of the mutual obligations under contract law?

Mr. MCGRAW. There's no question about that, Congresswoman. The whole issue of enforcement has been a very difficult one. The comments I made earlier about the signing of the intellectual property bilateral agreement in 1995, we have seen nothing but abuse in terms of the continuation of piracy. We believe, and our hope is, that as part of the World Trade Organization, that you are going to have further leverage and further muscle to be able to get resolution there.

On the question of employees and the understanding of basic common values, I would echo the same as both Georges. From my standpoint, you know, we have a very strong code of business ethics that we make sure that each employee knows and understands, and we routinely go through those kinds of issues. We have management forums and employee forums around the world. We just make sure that there's a continuous effort in terms of making sure people understand those kind of values.

I would agree as well that a lot of the employees that we have, some of our most loyal employees, are people that you would have

thought years ago would have been just the opposite. They are so thankful for the opportunity to be able to get ahead.

Mrs. JOHNSON of Connecticut. Thanks. Thanks, Mr. Chairman.

Chairman CRANE. Thank you. The Subcommittee is going to go into recess.

Mr. RANGEL. I have one question.

Chairman CRANE. Oh yes. Mr. Rangel.

Mr. RANGEL. If expanded trade with China is so important to move that great country into a democratic form of government, should not those same principles apply as it relates to Cuba? Is there anyone that challenges that, if it's good for a 1.3 billion people that those same principles should apply for 8 million people that are 90 miles from our border? Does anybody here support the embargo against Cuba?

Chairman CRANE. It's a unanimous vote, Charlie.

Mr. RANGEL. We're going to need some help here because democracy is not a part-time job, you know. If it makes a lot of sense for those Communists in China and Vietnam and North Korea, then I think we ought to give our friends in the Caribbean a break, too.

Chairman CRANE. Let me add, free trade is not a part-time job. Having communications from presidents and chief executive officers is vitally important. More important as individual votes come up, however, are your transmission of the importance of free trade to your employees and the communication from those employees to their elected representatives. So please get the message out.

Again, thank you for putting up with us. You did an outstanding job.

We stand in recess, subject to call of the Chair.

[Recess.]

Chairman CRANE. I now would like to reconvene the Subcommittee for our final panel. That includes John Sweeney, president of the AFL-CIO, Jack Valenti, president and chief executive officer of Motion Picture Association, Neil Gambow, president of Post Glover Resistors, Inc., and Robert Kapp, the president, United States-China Business Council. If you gentlemen will take your seats and proceed accordingly. Try and keep your oral testimony to 5 minutes. Any printed statements will be made a part of the permanent record.

Mr. Sweeney.

**STATEMENT OF JOHN J. SWEENEY, PRESIDENT, AMERICAN
FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL
ORGANIZATIONS**

Mr. SWEENEY. Thank you, Mr. Chairman, for this opportunity, and Members of the Subcommittee, to be able to present the views of the AFL-CIO on China's accession to the World Trade Organization. The AFL-CIO believes strongly that we have a responsibility to work to strengthen democratic forces, improve economic conditions, and advance human rights in China. In the long run, we believe the ties between our countries will be strengthened rather than weakened by such efforts.

An overriding concern for the labor community is China's horrendous record of human and workers' rights violations. There should be no accession or grant of permanent or annual normal trade rela-

tions until China makes material progress to protect the rights of workers. Furthermore, any accession agreement must effectively address serious unresolved issues with the draft commercial terms, and ensure that the United States retain broad and effective tools to address problems with compliance.

China repeatedly and flagrantly violates internationally recognized core labor standards by denying Chinese workers freedom of association and the right to organize and bargain collectively, as well as by the abuse of prison labor. The end result, as the 1998 State Department Human Rights Report confirms, is that no independent labor unions are allowed to function in China. Existing unions are completely controlled by the Communist Party, and many are not independent of management.

A recent report by the International Confederation of Free Trade Unions documents two disturbing trends. First, many labor activists have been jailed or sentenced to reeducation camps for the crimes of advocating free and independent trade unions, protesting corruption, embezzlement, and nonpayment of wages by managers and for providing information on workers activities to journalists.

Second, there have been increasing confrontations, sometimes violent, between protesting workers and the police. In January of this year, for example, police attacked 100 retired factory workers who were protesting unpaid pensions. Ten of the elderly activists were beaten, including a 70-year old man, who was knocked unconscious.

It is clear that the Chinese Government is implementing an economic policy based on strategically restricting access to its home market, while aggressively promoting exports. The systematic violation of internationally recognized workers' rights is a crucial component of this strategy. Often, China's actions represent an explicit violation of bilateral agreements between China and the United States. At the 1996 WTO Ministerial in Singapore, WTO members committed themselves to observe core labor standards, including freedom of association, the right to organize and bargain collectively, and prohibitions on child labor, forced labor and employment discrimination.

The next WTO Ministerial will take place later this year in Seattle. This will be a crucial opportunity to press for further progress in strengthening the WTO's commitment to promote core labor standards. Labor leaders from all over the world will gather in Seattle to press the trade ministers and heads of state, to incorporate enforceable workers' rights and environmental standards into WTO rules.

Given the current workers' rights and human rights problems in China, it is therefore essential that United States negotiators insist on three conditions prior to China's accession to the WTO. First, that the Chinese Government observe and effectively enforce core labor standards as a condition of accession. Chinese workers must be allowed to join together, organize, and bargain for better working conditions and wages. Second, the Chinese Government must immediately free all jailed human and labor rights activists. Third, the Chinese Government must agree to support United States efforts to incorporate enforceable workers rights into WTO rules, including establishing a working party on workers rights, which

would allow a constructive dialog on workers rights to take place at the WTO.

In addition, the AFL-CIO continues to have serious concerns about the unresolved commercial terms of accession, as well as the enforceability of any agreement with China, given China's poor record of compliance with past bilateral agreements and the failure of the United States Government to aggressively enforce these agreements. The central enforcement issue is whether bringing China into the WTO will improve or worsen the United States Government's ability to enforce China's compliance with the letter and the spirit of the international trading and workers' rights norms. While accession will in principle bring China under the discipline of WTO rules and dispute settlement, the United States will forfeit its ability to use some U.S. trade measures unilaterally. For example, the trade measures available under section 301 are very limited as applied to WTO members.

Human rights, worker rights, and compliance with internationally recognized trading norms are necessary components of a well-functioning international trade system. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of John J. Sweeney, President American Federation of Labor and Congress of Industrial Organizations

Thank you, Mr. Chairman and members of the Subcommittee, for this opportunity to present the views of the AFL-CIO on China's accession to the World Trade Organization (WTO).

The AFL-CIO believes strongly that we have a responsibility to work to strengthen democratic forces, improve economic conditions, and advance human rights in China. In the long run, we believe the ties between our countries will be strengthened, rather than weakened, by such efforts.

An overriding concern for the labor community is China's horrendous record of human and workers' rights violations. There should be no accession or grant of permanent or annual normal trade relations (NTR) until China makes material progress to protect the rights of workers. Furthermore, any accession agreement must effectively address serious unresolved issues with the draft commercial terms and ensure that the United States retain broad and effective tools to address problems with compliance.

China repeatedly and flagrantly violates internationally recognized core labor standards, by denying Chinese workers freedom of association and the right to organize and bargain collectively, as well as by the abuse of prison labor. The end result, as the 1998 State Department's Human Rights Report confirms, is that no independent labor unions are allowed to function in China today. Existing unions are completely controlled by the Communist Party, and many are not independent of management.

The State Department's report notes that the Chinese government's "human rights record deteriorated sharply beginning in the final months of [1998] with a crackdown against organized political dissent." Restriction of religious freedom intensified in 1998, according to the report. The repression of workers' rights likewise worsened in late 1998 and early 1999.

A recent report by the International Confederation of Free Trade Unions (ICFTU) documents two additional disturbing trends. First, many labor activists have been jailed or sentenced to reeducation camps for the crimes of advocating free and independent trade unions; for protesting corruption, embezzlement, and non-payment of wages by managers; and for providing information on workers' activities to journalists. According to the ICFTU, at least 78 people have been detained in connection with independent labor activities since 1989. Second, there have been increasing confrontations, sometimes violent, between protesting workers and the police. In January of this year, for example, police attacked one hundred retired factory workers, who were protesting unpaid pensions, in Wuhan. Ten of the elderly activists were beaten, including a 70-year old man who was knocked unconscious.

The ICFTU notes that many workers are being penalized for protesting unpaid wages or unpaid pensions. The ICFTU warns that this trend is likely to increase with China's economic slowdown, as workers increasingly face situations where

wages or pensions cannot be paid due to mismanagement or embezzlement of funds from defunct state enterprises.

It is clear that the Chinese government is implementing an economic policy based on strategically restricting access to its home market, while aggressively promoting exports. The systematic violation of internationally recognized workers' rights is a crucial component of this strategy. Often China's actions represent an explicit violation of bilateral agreements between China and the United States.

In a 1992 Memorandum of Understanding on market access, for example, the Chinese government agreed to eliminate "all import substitution regulations, guidance and policies." Two years later, according to the United States Trade Representative's 1997 National Trade Estimate Report on Foreign Trade Barriers, China announced an automotive industrial policy that explicitly called for "production of domestic automobiles and automobile parts as substitutes for imports" and established local content requirements, which forced companies to use domestic products, even when less expensive or better-quality foreign products were available. This policy caused U.S. exports of auto parts to China to plummet, from \$218 million in 1993, the year before the policy went into effect, to \$132 million in 1998. U.S. imports of auto parts from China, meanwhile, rose from \$339 million to \$1.036 billion during the same period. It is unlikely that WTO accession, in and of itself, will bring about the necessary changes in China's domestic economic policies that have been promised, particularly in light of past compliance problems.

The skewed U.S.-China trade relationship continues to worsen. Last year, the United States racked up a merchandise trade deficit with China of \$57 billion, up from \$50 billion last year and balance in 1980. The United States imported \$71 billion worth of goods from China in 1998, while exporting only \$14 billion worth, a ratio of more than 5 to 1, by far our most asymmetrical trade relationship.

At the 1996 WTO ministerial in Singapore, WTO members committed themselves to observe core labor standards, including freedom of association, the right to organize and bargain collectively, and prohibitions on child labor, forced labor, and employment discrimination.

The next WTO ministerial will take place later this year in Seattle. This will be a crucial opportunity to press for further progress in strengthening the WTO's commitment to promote core labor standards. Labor leaders from all over the world will gather in Seattle to press the trade ministers and heads of state to incorporate enforceable workers' rights and environmental standards into WTO rules.

Given the current workers' rights and human rights problems in China, it is therefore essential that U.S. negotiators insist on three conditions prior to China's accession to the WTO. First, that the Chinese government observe and effectively enforce core labor standards as a condition of accession. Chinese workers must be allowed to join together, organize, and bargain for better working conditions and wages. Second, the Chinese government must immediately free all jailed human and labor rights activists. Third, the Chinese government must agree to support U.S. efforts to incorporate enforceable workers' rights into WTO rules, including establishing a working party on workers' rights, which would allow a constructive dialogue on workers' rights to take place at the WTO.

In addition, the AFL-CIO continues to have serious concerns about the unresolved commercial terms of accession, as well as the enforceability of any agreement with China, given China's poor record of compliance with past bilateral agreements and the failure of the U.S. government to aggressively enforce these agreements.

In order to adequately address these commercial concerns, the accession agreement should include:

- a safeguard provision against unpredicted import surges that will remain in place for at least 15 years and/or until a review determines that Chinese conditions no longer warrant such a measure.

- provisions ensuring that parties other than the U.S. government can take action when imports cause market disruption. Unions, among others, should have standing to bring cases or appeal when the U.S. government fails to act.

- an effective general safeguard, with multilateral surveillance measures, including periodic reviews with accurate and adequate information provided.

- measures to address the problem of company-to-company offset agreements, in addition to those addressing government requirements.

- provisions to ensure that labor unions will have access to the information necessary to make complaints regarding performance requirements and offsets, especially since many of these deals are secret, and the parties involved do not have an incentive to make them public.

- a review process to determine when the period during which China will be considered a non-market economy for purposes of calculating dumping margins will end.

— a ten-year phaseout on the quotas on Chinese apparel and textiles. The longer phaseout is necessary to prevent disruption of U.S. and other countries' apparel and textile markets.

— a guarantee that the U.S. will retain the ability to use Section 301 and other trade remedies effectively in the event that China fails to comply with the accession agreement.

The central enforcement issue is whether bringing China into the WTO will improve or worsen the U.S. government's ability to enforce China's compliance with the letter and the spirit of international trading and workers' rights norms. While accession will in principle bring China under the discipline of WTO rules and dispute settlement, the U.S. will forfeit its ability to use some U.S. trade measures unilaterally (for example, the trade measures available under section 301 are very limited as applied to WTO members).

Since the WTO does not allow trade sanctions based on workers' or human rights violations, the U.S. will clearly lose the ability to withdraw trade benefits (or threaten to do so) in response to China's egregious and persistent violation of internationally recognized workers' rights. The annual congressional debate over renewing normal trade relations has at least succeeded in keeping public attention focused on these problems.

These issues must be addressed before China is allowed to join the world trading community. Human rights, workers' rights, and compliance with internationally recognized trading norms are necessary components of a well-functioning international trade system.

Mr. Chairman, members of the Subcommittee, thank you for your time and attention.

Chairman CRANE. Thank you.
Our next witness, Jack Valenti.

STATEMENT OF JACK VALENTI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOTION PICTURE ASSOCIATION OF AMERICA, INC.

Mr. VALENTI. Thank you, Mr. Chairman. I want to say that the Motion Picture Association strongly supports the granting of normal trade relations with China. We think that it would be useful for this Subcommittee to consider the fact that you should grant permanent NTR to China. It would be frustrating for U.S. industries for China to have accession to the World Trade Organization and not get NTR because then industries that should benefit from WTO accession would be left out. That doesn't make any sense at all.

I have made four trips to China in the last 20 months. I think I have a little better grasp of what is going on there than I did before I visited, though I don't come back as an expert. I don't think four trips to China makes you an expert. But let me tell you something about why intellectual property is important in a long-term relationship with China.

I don't have to tell this Subcommittee that intellectual property: movies, television, home video, books, music, and computer software, represent today the largest gatherer of international revenues of any industry in the United States, bigger than automobiles and auto parts, larger than aircraft, larger than agriculture. We are riding a rising curve into the future. Intellectual property will become even more of a great trade prize in the next 5 years than it is today. In China we are making some headway. I am hopeful that as part of the WTO accession and the granting of NTR, that the U.S. Trade Representative can make some gains which I think

were in progress at the time that the premier was here, Zhu Rongji, and went back to China without the WTO in his knapsack.

We know that there is one issue that we have to get settled. That is, we need more movies accessible to the Chinese marketplace. Right now, there is a de facto, unwritten, unofficial, unspoken quota of 10 films per year in what we call revenue sharing, which is the norm all over the world. That is, we split the box office with the theater, 50 percent goes to the theater owner, 50 percent to the distributor. Ten films is too small. I have made suggestions that they go 17 films next year, and then 24 after that until we reach a level that I think would be normal.

We have made great progress in reducing tariffs from 6 to 15 percent down to zero to 6 percent as part of the agreement—I don't know where it stands now. When the WTO negotiations were in progress, for the first time, the Chinese were willing to let us come in and own and operate and control cinemas. China is very under-screened, one screen for every 122,000 people. In the U.S., we have one screen for every 8,600 people, so you can see the disparity.

I believe that we can make larger headway. Now our revenues from China are pathetic, about \$18 million in 1997. We are losing about \$80 million, we estimate, from box office as a result of this 10-film quota. We are losing about \$120 million a year in piracy. So we have got a \$200 million market there that we could gather in quickly.

I do have to say that the Chinese have been very fruitful in the way they have responded to our pleas to combat piracy. They ran a lot of the pirates out of Guangdong Province in the south. They migrated over to Macao, where they are operating now, but the Chinese will take over Macao later this year. I have been very pleased with the fact that when they have made a promise, they have redeemed it; when they have made a pledge, they have kept it.

So I believe overall, that our prospects for a progressive trade relationship with China are going to grow exponentially. We just have to get through this difficult and frustrating, and even lacerating period, but I think we will. I am hopeful that we keep our eye on the distant objective and not the one nearest us. Mr. Chairman, I'll give you back the time.

[The prepared statement follows:]

Statement of Jack Valenti, President and Chief Executive Officer, Motion Picture Association

"I urge you to consider providing authorization *now* to the President to extend permanent NTR status upon the President's certification that he has completed an acceptable WTO accession package for China. It is difficult to imagine anything more frustrating than having the U.S. Government conclude a good WTO accession package with China, but not being able, as U.S. industries, to benefit from the agreement."

I am pleased to have the opportunity to share with you the views of the Motion Picture Association on U.S.—China trade relations and the possible accession of China to the World Trade Organization

The Motion Picture Association is a trade association representing seven of the largest producers and distributors of filmed entertainment (theatrical motion pictures, television programming and home video) in the United States. Its members include Buena Vista International, Inc. (The Walt Disney Company), Columbia TriStar Film Distributors International, Inc., Metro-Goldwyn-Mayer Inc., Paramount Pictures Corporation, Twentieth Century Fox International Corporation, Uni-

versal International Films, Inc., and Warner Bros. International Theatrical Distribution.

The U.S. copyright-based industries, which include the motion picture, sound recording, computer software, and book industries, were America's number one export sector in 1996. These industries together achieved foreign sales and exports of \$60.18 billion, surpassing every other export sector, including automotive, agriculture and aircraft.¹ The U.S. filmed entertainment industry alone earned about \$12 billion in foreign revenues in 1997, 40% of the total revenues earned by the U.S. film industry.

MPA SUPPORTS RENEWAL OF NTR STATUS FOR CHINA

MPA strongly supports renewal of normal trade relations (NTR) for China this year. Moreover, MPA urges you to consider providing authorization *now* to the President to extend permanent NTR status upon the President's certification that he has completed an acceptable WTO accession package for China. It is difficult to imagine anything more frustrating than having the U.S. Government conclude a good WTO accession package with China, but not being able, as U.S. industries, to benefit from the agreement. Yet, this is what could happen unless Congress authorizes unconditional NTR by the time China joins the WTO. If the U.S. were not in a position to extend unconditional NTR to China, the U.S. would have to invoke the non-application clause of the WTO. The end result would be that every other country in the world would enjoy the full benefits of China's accession—but the United States would be left out.

MPA SUPPORTS PROMPT CONCLUSION OF NEGOTIATIONS ON OUTSTANDING ISSUES FOR CHINA'S WTO ACCESSION

MPA strongly supports the goal of China's accession into the World Trade Organization.

MPA believes that it would be substantially more effective for the U.S. and China to manage their trade relationship from within the agreed standards of the global trading community.

However, it is important as part of the accession process that China agrees to improve access to its market in sectors that are important to the U.S. economy—including the filmed entertainment sector. China has taken some important steps toward this goal, but one critical piece is still missing—some liberalization of the restrictions on exports of US films under revenue sharing conditions.

MPA member companies currently face market access problems in China that severely limit the size of U.S. filmed entertainment exports. Total U.S. revenues earned in China in 1997 were only around \$18 million. We conservatively estimate that losses due to restrictions in import and distribution of motion pictures cost the U.S. industry at least \$80 million annually. This estimate does not include the potential growth in the export of filmed entertainment, if the infrastructure were significantly expanded, for example, through liberalization of foreign investment in cinemas or broadcast, cable or satellite television. In addition to the losses resulting from market access restrictions, the U.S. filmed entertainment industry lost \$120 million to piracy in China last year. In short, if the barriers to film distribution were lifted, and if a legitimate video sales and rentals market captured the market now lost to piracy, an increase in US revenues in China in excess of \$200 million is achievable. That number could grow even higher, if additional reforms were undertaken to expand the distribution of films and television programming.

Access for motion pictures—the missing piece:

American motion pictures face quantitative limits on access to China's market. Before the WTO accession negotiations are completed, it is essential that the USG secure a commitment from China to relax restrictions on import of foreign films under revenue sharing² conditions in a modest way. There is a *de facto* limitation of 10 films per year on the first-run films that may be brought into China under

¹ Siwek, Stephen E. and Mosteller, Gale, *Economists Incorporated*, "Copyright Industries in the U.S. Economy: The 1998 Report," prepared for the International Intellectual Property Alliance, 1998.

² Revenue-sharing refers to the commercial terms that are the industry standard for MPA member companies. Under "revenue sharing" the distributor and the cinema owner negotiate the percentage of the box office receipts each will receive, such as a 50/50 split.

revenue-sharing conditions. MPA's main goal in the accession negotiations is to secure a gradual increase in the number of films.

Cinemas:

China has made useful commitments in the WTO accession negotiations to allow foreign investment in joint ventures to build, own, operate, and manage cinemas. This could help build up the infrastructure and expand the total market for motion pictures in China—for US films, as well as Chinese films. At present, foreigners are not permitted to own or operate cinemas in China.

China remains one of the more under-screened markets in the world. There are about 3000 cinemas exclusively dedicated to exhibition of motion pictures. In addition, there are approximately 7000 others theaters that exhibit motion pictures on a part-time basis; included in this number are theaters that also host live exhibitions (dance, concerts, opera) and theaters that serve specialized clientele, such as the workers in a large factory, rather than the general public. The ratio of screens per person is only 1 screen per 122,000. This compares to a total of 30,825 screens in the United States and a ratio of screens per person of 1 per 8,600 people.

However, the value of this commitment is limited, at present, by the restrictions on access for foreign films. Without knowing that more foreign films will be available to fill all the new screens, investors are unlikely to be interested in building new cinemas in China.

Tariffs:

China made meaningful commitments in its accession package to reduce the heavy burden of import duties on filmed entertainment products. Some technical work remains on the valuation method for assessing those duties. Prevailing world practice is to value films on the basis of the "material substrate." U.S. duties, for example, are expressed in terms of cents per meter of film, or, in the case of optical media products, on the value of the blank diskette. Chinese valuation practices remain unclear.

Protection Of Intellectual Property:

Since 1996 China has achieved a remarkable record in an important area of intellectual property protection. China has stemmed the unauthorized reproduction and halted the export of Video Compact Discs and other forms of pirated optical media products. China's domestic market continues to be plagued with extremely high levels of piracy – 90 percent for home video entertainment in 1998. Based on China's record for combating export piracy and the good working relationship that MPA has developed with China's copyright enforcement authorities, MPA is confident that China can make rapid progress in significantly lowering domestic piracy rates to meet the standards contained in the WTO's Agreement on Trade Related Intellectual Property (TRIPS.)

CONCLUSION

MPA strongly supports renewal of normal trade relations (NRT) for China. If the vote on annual renewal is the vote that first comes before this body, then MPA urges support for annual renewal. But, a better approach would be to provide authorization *now* to the President to extend permanent NTR status, to be effective upon the President's certification that he has completed an acceptable WTO accession package for China.

China has made commitments in the accession negotiations that could potentially benefit MPA's member companies, but only if these commitments are supplemented by some liberalization of access for U.S. motion pictures distributed on a revenue sharing basis. As soon as this final step is taken, MPA looks forward to supporting strongly China's accession into the WTO.

Chairman CRANE. Thank you, Mr. Valenti.
Our next witness, Mr. Gambow.

**STATEMENT OF NEIL E. GAMBOW, JR., PRESIDENT, POST
GLOVER RESISTORS INC., ERLANGER, KENTUCKY**

Mr. GAMBOW. Thank you, Mr. Chairman and Members of this Subcommittee, for giving me the great privilege of placing testimony before you today. My name is Neil Gambow, and I am president of Post Glover Resistors Co. We can trace our roots back to 1892. We are a small company in Erlanger, Kentucky, employing about 110 people, making heavy-duty power resistors for the industrial power distribution market.

We have export sales of about 10 percent of our output with China, the ASEAN countries and Mexico being our principal export markets. In 1989, we began export trading, with our first customers being the ASEAN countries. We developed that market over the past, up until 1993, when we actually established a small manufacturing and assembly operation in Johore Bahru in Malaysia. Today that operation employs about 10 people.

In 1995, we identified China as the next market to attract our attention. The Chinese Government was going to spend a lot of money on electrification projects, creating a very bright market for our neutral grounding resistor products. Entry into the market, however, seemed very difficult, especially for a small company with limited resources. Some of the barriers we saw were language, vague import regulations, identification of the potential customer base, definition of product, certainly the duties as we found out later on, difficult banking relationships, and so on.

While studying our entrance strategies, we were approached by a company called the Shenzhen Farad Complete Equipment Co., who found us as a result of an article we had published in an Asian electricity trade journal. From that first meeting in mid-1995, we have developed a partnership with that company. Today, our company in the USA produces the basic parts of these power resistors and their company in turn buys them from us, assembles them into the final product, and sells them to the power authorities in China throughout the entire country. Members of our staff, both myself and the people from our plant, and from the Malaysian operation, have visited their operations in Shenzhen, China, a total of 20 times in the last 4½ years to develop that relationship. Our relationship has even helped create a few jobs in their factory.

Outside of the USA, China certainly is the largest single market in the world, a fact that we just can't ignore. As a company that has a dominant position in the USA, although we are a small company, we look to export sales as being a significant engine of growth for our company. We have found that in China, the American products are very well received. They are received as being high quality, premium price of course, but certainly well received. We feel that the Chinese market will pay these prices, especially to get the kind of quality they are looking for. I think when the quality is there, we absolutely see a welcome embrace for the products that we produce. I think this is a terrific opportunity not only for big companies, but for small companies like ourselves it is a terrific opportunity.

Many small companies are afraid to try China, to try to enter the market because of the seemingly huge barriers that have to be overcome, as I mentioned earlier. Good, stable trade relationships

will help to minimize some of those barriers, and maybe create an environment for smaller companies to give it a try and try to get to the Chinese market. I believe that the World Trade membership for China is a big step in this direction. It appears to us now that Ambassador Barshefsky has hammered out a good initial position toward the expansive bilateral market access agreement in preparation for approving membership in the WTO. I think this is the time to press hard in Congress to get the approval to endorse China for this full membership. I think continuing to delay risks the loss of all these relationships and the possibility of not getting anything done.

Of particular interest to Post Glover are the world trade issues of technology transfer, protection of intellectual property, and the dropping of import duties. By dropping these and making it easier for smaller companies to get into the market, I believe a number of us and a number of my colleagues would be very happy to really make an entrance to those markets.

I am also concerned about the huge trade imbalance. You know, lack of permanent long-term trade relationships, I believe, are keeping our exports to China artificially low. Reducing these barriers and making it less expensive for smaller companies to get to this country, I believe, is a good way to start chipping away at this trade imbalance. There are thousands of small companies out there that I think could actually help do that.

If we are to chip away at this trade imbalance, the World Trade membership for China and a stable long-term policy are a must. I think without these two elements, we are doomed to relive each year the same as the prior one, much as the movie Groundhog Day, where the main character lived the same day every day until he decided to make a big change. I think this is time to make the big change in Congress.

We are a small company. We have many small companies in the USA. We are all ready to give a try to entering the Chinese market. I urge you in the strongest way to do what's necessary to bring China into the WTO. We believe that this would also help in facilitating progress on all the issues like the human rights discussions we have just heard about. Trade is an enduring legacy which can be leveraged to keep relationships between our countries on a much more even keel. Thank you very much.

[The prepared statement follows:]

Statement of Neil E. Gambow, Jr., President, Post Glover Resistors Inc., Erlanger, Kentucky

Thank you, Mr. Chairman, for allowing me to place this testimony before this Subcommittee on Trade. I am Neil Gambow, President of Post Glover Resistors Inc. Today I am appearing on behalf of our company in support of annual renewal of normal trade relations (NTR) with China, and eventually permanent NTR with China.

HISTORY OF POST GLOVER RESISTORS INC. (PGR) AND THE DEVELOPMENT OF THE HEAVY DUTY POWER RESISTOR MARKET IN CHINA

Post Glover Resistors Inc., established in 1892, is a small company located in Erlanger, KY employing 110 people in the design and manufacture of heavy duty power resistors for industrial power distribution and other electric power manage-

ment markets. While our products are used throughout the world, we find countries with emerging infrastructure the best candidates for market penetration.

In 1989, we recognized the infrastructure building going on in the ASEAN countries as a great opportunity to expand our export sales. That year we began serving the ASEAN market with Neutral Grounding Resistors which sell for prices in the range of \$5,000–\$30,000 per unit. This sales success of this business endeavor led to the establishment of Post Glover Sdn. Bhd. in 1993. It is an assembly operation located in Johore Bahru, Malaysia employing 10 people. As this business developed, we began to look at the market for Neutral Grounding Resistor products in China. After evaluating investment goals put forth by the Chinese government for developing the electrical power generation and distribution systems, we concluded that China represented a significant market opportunity for this product line. Entry into the market, however, seemed to be very difficult especially for a small company with limited resources. Some of the barriers we saw included language, vague import regulations, lack of knowledgeable market contacts, identification of a potential customer base, definition of the exact product for the local market, difficult banking arrangements and so on.

In 1995, while studying market entry strategies, we were approached by the Shenzhen Farad Complete Equipment Company located in Shenzhen, China. Their engineering staff had need for our Neutral Grounding Resistors and were not satisfied with local products. A key engineer had heard about us through a technical article we published on the subject in a regional trade journal.

We quickly agreed to a meeting in Shenzhen where it became obvious very quickly that there was a good match of skills for a successful business venture. PGR had the technical know how and product quality. Shenzhen Farad had the market knowledge and product definition background. Our partnership began with an initial order for a number of units placed during that first meeting. As our relationship grew, we agreed to jointly manufacture products. PGR now manufactures the resistor components in the USA and sells them to Shenzhen Farad who, in turn, manufactures enclosures, assembles the final product and sells the finished product to the Chinese power authorities. Members of my staff and I have made about 20 trips to China to support our market penetration in these last four years.

Our joint effort has grown to the point where sales in China through Shenzhen Farad will represent 3–4% of our USA volume this year. These sales provide employment for 4 people here and at least 10 people at Shenzhen Farad.

THE IMPORTANCE OF MAINTAINING A SOLID TRADE RELATIONSHIP WITH CHINA.

Our trading experience in China over the last four years has demonstrated the value of a solid trading relationship. China presents many challenges to companies wishing to access the market there. In addition to language barriers, many of the challenges stem from radically different cultural paradigms. To be successful in a foreign company, a healthy respect and understanding of cultural differences is critical. This is not something that can be learned by reading books and playing tapes. You must visit and form personal relationships. These relationships will transcend any trade or political problems that ebb and flow over time.

The relationship with Mr. Tu Fankui, Managing Director, and his associates at Shenzhen Farad have smoothed over the inevitable bumps in the road. Open and frank communications have overcome disparities in technical knowledge, slow sales times, differing views of cost sharing and so on. We trust one other to look out for individual interests while respecting and accommodating the other's interest. Much should be applied from this in dealing with the accidental bombing of the Chinese Embassy in Yugoslavia and the Cox report. Understanding and communication get participants much further than confrontation and aggressive retaliation.

An example of improving understanding and communication is our support for technical seminars demonstrating the use of Neutral Grounding Resistors. Mr. Tu values of having a representative from our company at these seminars and feels that his company's credibility is significantly enhanced by our presence. At the same time he recognizes the impact on a small company of the high cost of travel from the USA to China so we work out the most effective travel schedule to help control our costs and get the most impact from our visits. This means his people handle many of the local seminars and we support him at large regional and national seminars where our presence will result in orders which help pay for a trip.

We have also found out just what it means to have an American product that is in demand. Compared to like products produced in China, American products are generally perceived as high quality with a premium price especially with freight and

duty added. However, the Chinese market will pay these prices to get the quality where local products are deemed to be of a significantly lesser quality. There is an underlying desire for high quality products which minimize service problems. It is our opinion that China as a whole is moving towards higher quality products and is willing to pay for them. This is a solid opportunity for both small and large US companies.

Many companies are afraid to try the Chinese market because of the perceived barriers to overcome. Good trade relations at top levels help minimize these barriers and encourage companies to jump in. The markets are huge and ready for American products.

WHAT WOULD UNCONDITIONAL NORMAL TRADE RELATIONS STATUS AND WTO MEMBERSHIP FOR CHINA MEAN TO PGR?

It appears to us now that Ambassador Barshefsky has hammered out a good initial position towards an expansive bilateral market access agreement. This is the time to press hard in Congress to get approval to endorse China for full membership in the WTO. Again, we would not have gotten this far in penetrating the market without solid personal relationships in China. We cannot afford to have our efforts to establish these relationships squander this even in the harsh light of the accidental bombing of the Chinese Embassy in Yugoslavia and the Cox report.

Of particular interest to PGR are the WTO issues of technology transfer, protection of intellectual property and dropping of import duties. Currently, we are offering product technology that is one generation behind that of current US products. We fear that we will see our products copied and coming back to the US as a competing product. With more protection of intellectual property, we will be able to offer our latest technology with some assurance our investments would yield an acceptable return.

Our sales growth in China has been slow but steady. With China having full WTO membership, the import duties would be reduced and make us even more competitive. This would be true for many US products. We have supported admission of China to the WTO since we became involved there and view this as a solid step to allow further penetration of the market with our products. In fact, we estimate that our business in China would double in a year with this approval.

The job impact on our company is obvious. Not only will our employment increase but we would be in a position to offer more of our products to the China market. But the impact on Shenzhen Farad and its employees may not be so obvious. Employment is an important element of raising living standards for Chinese citizens. Each time we help employ a local Chinese citizen, we make human rights issues that much smaller. And, believe me, we are happy to do our part in this.

For other small companies, any improvements which would make it more affordable to enter the market would be advantageous to trade growth. The emphasis is on the word "affordable." Small companies often have good products for the China markets but cannot afford to enter the market. WTO membership would lower market entry expense reducing the costs of paperwork to get goods into the country, enable banking relationships to be established to insure prompt payment for goods. Many small companies cannot afford to wait 60-90 days to be paid. I believe WTO membership for China would open the doors for more small companies to enter the China market.

I am also concerned about the huge trade imbalance between our countries. Lack of permanent long-term trade relationships keeps our exports to China artificially low. If we are to improve this, WTO membership for China and a stable, long-term trade policy must be in place. Without them, we is doomed to relive each year the same as the prior one much like in the movie "Groundhog Day" in which the main character relives the same day every day until he finally decides to make a big change. This is the time for Congress to make the big change.

PGR and many other small US companies have product ready to serve the market and anything Congress can do to facilitate the movement of our products into China helps reduce this trade imbalance and facilitates progress on many fronts including Human Rights discussions..

CONCLUSION:

I urge you to push as hard as you can for unconditional normal trade relations (NTR) status and full WTO membership for China. I know we are in a difficult time with the bombing of the Chinese Embassy in Yugoslavia and the Cox report. But these fences will, no doubt, be mended by people who know we cannot afford a poor

relations between our countries for any length of time. Let's allow the politicians solve these problems within a framework of support based on solid trade relationships. I believe this works.

China is the largest single market in the world outside the USA. By maximizing access to the China markets, we give our respective countries and business sectors the opportunity to grow and prosper. This, in turn, provides a solid foundation for nurturing the necessary mutual trust and respect needed between China and the USA.

Thank you for your time and attention.

Chairman CRANE. Thank you, Mr. Gambow.
Our final witness, Mr. Kapp.

STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL

Mr. KAPP. Thanks, Mr. Chairman. I am delighted to be here today. I want to start by saying that this Subcommittee has hued very closely to its mandate and has discussed the issues before us principally on trade grounds. That is what we need to do. But I think we all recognize that right outside the door of this room, there is a very challenging environment with regard to United States-China relations generally which cannot be entirely ignored when it comes to any vote on trade with China.

Therefore, in my own written testimony, I have tried to open by pointing out that it is time for the Congress to readdress issues of a positive and constructive and forward-looking nature in the relationship with China, even as the Congress exercises its responsibility to address those areas of enormous dispute and difficulty with the PRC. Obviously, the economic and commercial issues that Congress may address this year, including the possibility of a vote to establish a full WTO member status for China, are an area in which I would hope that the Congress could restore that element of positive forward-looking balance in the relationship which unfortunately is largely absent from the environment today.

I want to take a couple of minutes to try to respond to specific points made by individual Members earlier in today's hearing. Let me start with Congressman Crane, who imagined himself a worker in China drinking a beer with fellow worker Congressman Levin, and saying, "Why don't you come over and join my company? After all, I work for a good American company, we pay good wages, and so forth, in China."

The thing we Americans don't want to see is, if you will pardon the expression, sir, Sandy Levin working for that decrepit old state industry, saying to Phil Crane, "Why do I want to work for your company? It's an American company and working for an American company is a career-buster." That is implicit in the high level of acrimony and in the sort of potentially self-propelling negativism that now envelopes the United States-China relationship.

We must not reach a time when Americans and Chinese alike conclude that individual decisions by people in all levels of work—bureaucrats, Committee Members, Chief Executive Officers both here and in China, in large organizations and small—to work for a better, more positive, more profitable, more beneficial relationship with each other's counter part is no longer good for one's

health. We must avoid the time when, after work, the worker in the Chinese enterprise says to the worker in the American enterprise, "I would never go to work in your plant here in China. You are an American company, and that's so bad for us and so bad for me, that it is no longer something we want to do." That is an issue that this entire relationship needs to deal with.

To Congressman Levin on the basic differences, as you have pointed out, between the market orientation and the rules-based system that the United States and many WTO members, to different degrees, embody, and which in your view China does not embody, it does strike me that that is the very point of a world system. That is to say, of course the world does not consist of countries all of which have exactly the same traditions and political and social and economic institutions, legal frameworks, customs, and so forth. That is why we have world institutions in the first place. That is why we have what we consider to be universally accepted systems of commitments and obligations; of rules of the road for all nations. There might be something to be said in that regard with respect to the value of WTO precisely because of the conditions that you adduced.

To Representative Barney Frank, who is no longer here, let me tell you what China is reading today. I refer to his comment about what China's leaders might be reading. Here are this week's best sellers at the best bookstore in Beijing. The first one this week: *New Capitalism*. The second one: *The Coming Conflict with China* by Dick Bernstein and Ross Huuro, translated into Chinese. The third one: *Class: a Guide to the American Status System*, by Paul Fascell, translated. The fourth one: *The New China Transportation Map*. The fifth one: *The SAS Survival Manual*, a Chinese translation of a British commando wilderness survival manual. The sixth one: *The Poetry of Wang*, the great Chinese linguist. The seventh: *From Hippies to Yuppies, a Personal Account of the Sexual Revolution*, by James Clifden, in translation. Number eight: a book full of the cartoons of a particular Chinese cartoonist. Number nine: *Old Photographs from 19th and 20th Century China*. Number 10: *The Contract Law of the People's Republic of China*.

So lest we still be stuck with the image of a China in which everybody reads the Little Red Book and is told what to read and what to think, this suggests something very different.

Now, to the trade issues themselves.

The key issue, it seems to me, if we do get permanent NTR this year, that needs to be defined for every Member, and in this Committee I think it will be obvious, is this: Is the United States going to say to China after successfully negotiating from China a range of commercial commitments which are in, in many ways fundamentally transformative of the way China runs its own economy and deals with the rest of the world economically, are we going to say to the Chinese when it comes to the PNTR vote, "thanks for making all those concessions, but on second thought, we don't want them. We want you to give them to the Japanese. We want you to give them to the Europeans. We want you to accord them to everybody else in the WTO. But as you join the WTO, we have decided that we would rather not have these benefits, even though we are the ones who squeezed them out of you in the first place."

Ultimately, the PNTR vote is the vote, necessary only in the United States because of existing law, which will either bring to the United States these tremendous benefits and opportunities or else will turn them away.

If we are fortunate enough to face that vote this year, that is the essence of the question that Members of Congress will have to face. If we are at that vote, it means that China has closed its negotiation with the United States. If they are closing them with Japan, Europe, and their other trade partners and moving toward accession this fall, that PNTR vote will mean that either we take the benefits home to the communities and the factories and the companies and the farmers and the workers of America, or we say "thanks; we don't want the benefits. Give them to Japan, Europe, and everybody else instead."

I will close only by mentioning that agriculture is not represented on today's panel. But I think as Members of Congress, you know that the revelation by the United States of what is at the brink of acceptance in the WTO negotiations, when added to the agricultural agreements already signed on wheat, meat, and citrus, has wrought a tremendous response from U.S. agriculture. You have received letters from 40 or 50 major agricultural associations, from the Farm Bureau Federation on down to the specific commodity associations and product associations. I know that if anyone from agribusiness were here today, that he or she could make that point far more effectively than I.

Thank you for your time. We appreciate very much the chance to be here.

[The prepared statement follows:]

Statement of Robert A. Kapp, President, United States-China Business Council

Mr. Chairman, members of the Subcommittee:

Thank you for permitting me to offer testimony before this hearing on US-China Trade Relations and the Possible Accession of China to the World Trade Organization.

I am Robert Kapp, President of the United States—China Business Council. The Council is a private, nonprofit and nonpartisan business association headquartered in Washington. We support the business development efforts of more than 250 leading American companies in a broad range of commercial fields. Founded in 1973, the Council is the principal organization of US firms engaged in trade and investment with China. Many of our member companies have been working hard on their businesses in China for two decades; others are newer to the field, and approach opportunities for productive commerce with China with the innovativeness and energy that characterizes America's young, creative, and rapidly internationalizing business sectors.

I. U.S.-CHINA RELATIONS: THE RIVER AND THE RAPIDS

Mr. Chairman, we have had difficult moments over the past year on the China front, particularly in the very recent past. Both the United States and China have found, especially in the past few months, occasions to doubt each other's intentions, to wonder about the other's motivations, and above all to criticize the other's actions harshly and publicly.

Two months ago, the intense US-China effort to reach a decisive WTO package by the time of Premier Zhu Rongji's visit to the United States came tantalizingly close, but fell short; the past two months have apparently been unproductive. The shocking bombing of China's embassy in Yugoslavia took place a month ago; events within China in supposed response to the bombing have, not been helpful, to say the least. Two weeks ago came full publication of the Report of the Select Committee on U.S. National Security and Military/Commercial Concerns with the Peo-

ple's Republic of China, and with it not only renewed attention to the apparent chronic failings of American management of national secrets but also another ear-splitting exchange of media and political salvos, some with truly apocalyptic overtones and some—in both countries—with gritty racial insinuation. Last week came the tenth anniversary of the Tiananmen violence, whose date happens to fall only one day after the legally-mandated deadline for presidential renewal of standing U.S. tariff policy toward China, and which continues to galvanize both public memory and media attention.

And yet, as I write this testimony on Sunday, June 6, momentary silence reigns. There appears not a single news report, feature article, opinion essay or editorial relating to China in those three news organs that sometimes seem to define the attention of the nation's policy-makers—the Los Angeles Times, the Washington Post, and the New York Times. The Sunday TV talk shows, too, have moved on to other topics. For the moment, China is “off;” other stories are “on.”

Mr. Chairman, U.S.-China relations are volatile, and they are spasmodic. On the surface, they are characterized by sudden eruptions of public, media, and political attention. They are, as people say, “event-driven.” Time and again, the U.S. and China remind me of two people stuffed into a single kayak, running the rapids of a turbulent stream.

But the U.S. and China are heavyweight players in a very big game that does not live by news cycles, legislative calendars, Central Committee schedules, or other domestic rhythms alone. The task of policy makers in both countries, who *do* live in a world of such pulsing rhythms, is to build structures and forge enduring policies aimed at advancing national and shared interests over the long term. They must navigate a broader, and longer, river.

The U.S. and China have a big and growing relationship—bilaterally, in the Asia-Pacific Region, and globally; economically, politically, culturally, and even ecologically. Beneath the jagged, seismograph-like lines of day-do-day events in the US-China relationship, there is and must be a quieter flow of longer-term involvement between the world's most powerful nation and largest economy on the one hand and the world's most populous and most rapidly-developing society on the other. Sustained, stable, and growing economic relations are a key element in this deeper process.

This hearing by the Trade Subcommittee of the House Ways & Means Committee provides a crucial opportunity, on Capitol Hill, for us all to remember the longer-term flow of U.S.-China involvement from which neither country can, or should in its own national interest, turn away.

II. NTR RENEWAL AND CHINA'S PROSPECTIVE WTO MEMBERSHIP

Mr. Chairman, I appear before the Subcommittee this year for the sixth time. In past years, the Trade Subcommittee hearing has been built around one thing: the Resolution of Disapproval offered annually in the House with the stated intention of overturning the action of the president in retaining for one extra year the ordinary tariffs (so-called “NTR,” or “Normal Trade Relations” levies) on Chinese imports. Current U.S. law leaves these tariffs open to cancellation every summer. Passage of the Resolution would rupture U.S.-China economic relations and much, much more.

Members of this Committee need no reminders of the intensity of views that has usually accompanied this annual exercise; or of the intensity of the legislative and political maneuvering occasioned by the yearly NTR campaign; or of the ensuing feelings of resignation and futility that many Members of Congress have expressed as the annual NTR mini-drama has played itself out.

The U.S.-China Business Council has never, and will never, take for granted the renewal of these plain-vanilla tariffs on Chinese imports; we will never assume that this lowest-common-denominator baseline for the continuation of normal trade with our country's fourth-ranked trade partner, is immune to derailment, so long as the annual review mandated by a 1974 law written to force a now-defunct Soviet Union to permit the free emigration of Soviet Jews remains pointed at the heart of nearly \$100 billion in legitimate US-China merchandise trade and more than \$20 billion in legitimate American investment in China.

And yet, Mr. Chairman, as you have pointed out in calling this hearing, and as the comments by leaders of a set of key U.S. corporations (several of them members of the Board of Directors of the U.S.-China Business Council) have suggested today, this Annual NTR Renewal hearing of the Ways & Means Trade Subcommittee might—just might—turn out to be the last hearing of its kind.

With luck, with perseverance, and above all with a clear-eyed rededication to the stabilization and development of US-China relations by leaders and policy makers

in both nations, the Congress may in coming months face the opportunity—and the challenge—of bringing home to America a majestic array of economic and commercial benefits achieved by U.S. negotiators after nearly thirteen years of tough engagement with China.

That opportunity, of course, will lie in the Congressional decision on whether to provide full WTO-member treatment to the People's Republic of China, and thus ensure for the United States full WTO-member treatment *from* China, as the PRC accedes to the global trading system's rules and obligations embodied in the World Trade Organization.

From evidence already in hand, it is apparent that the United States and China have made massive progress, much of it in the weeks and days preceding the visit of Premier Zhu Rongji to the United States in April, on a package of market-opening provisions that add up to the biggest advancement of U.S. commercial interests with China since the dawn of U.S. trade with the PRC in the 1970s. The remarks of business leaders earlier in today's hearing, and the numerous written statements addressed to Congress and the president in recent weeks from Members of the House and Senate as well as from dozens and dozens of companies and associations in agriculture, manufacturing, services, and consumer business, attest to the breadth of economic benefits to our country expected to flow from successful conclusion of negotiations over China's entry into the WTO.

Should the United States and China together rally the wisdom and the farsightedness needed to return to the table, resolve outstanding issues, and complete the U.S.-China bilateral agreement on PRC accession to the World Trade Organization, it will fall to Congress to answer the question:

Having secured China's agreement to the broad menu of market-opening and other measures that we have fought for in the name of a "commercially viable" agreement for so many years, will the U.S. act to bring those benefits home to our companies, our manufacturing producers, our farmers, our consumers, and our communities? Or will we, instead, turn inexplicably away, spurning the very commercial and economic concessions that we have fought successfully to achieve, while those benefits flow to every other WTO member—including our bitter competitors in Europe, Japan, and elsewhere?

We hope, Mr. Chairman, that if this historic opportunity does materialize this year, Congress will decisively choose the first of those two options.

Mr. Chairman, in the Annual MFN/NTR review process over the years, this hearing of the Trade Subcommittee has heard thoughtful comments from witnesses within and outside the Congress, not only about the specifics of U.S.-China commercial relations but about almost every aspect of U.S.-China relations and about many aspects of China's domestic affairs. The hearing has served as a useful opportunity each year to put both immediately-related and more broadly relevant issues on the table for Members, in the weeks preceding the annual vote on elimination of ordinary U.S. tariffs on Chinese imports.

Each year, for nearly a decade, Members of the House have listened, read, discussed, and sometimes argued these issues with all parties willing to engage them. I know personally how much time Members of Congress and their staffs have been willing to make available to me and others from the US-China Business Council, and to my colleagues from other associations and companies as well, under the broad rubric of the Business Council for U.S.-China Trade, whether each Member has been entirely to our views or not. We know that Members have listened with equal courtesy to other views on NTR renewal and on U.S.-China relations, sometimes expressed with great intensity of feeling. Each time we meet and engage on these questions, I feel a sense of excitement and pride at the unique openness of our system of government and the good will of those elected to make our laws.

And each year, the House has ultimately chosen to maintain the simple baseline of a normal economic relationship between ourselves and China—not a favor to China, not the preferential tariff treatment we grant to several dozen other nations, but simply standard tariffs. The House's decision has not been unanimous, but it has been commanding; it has been thoughtful, and it has been bipartisan.

That decision to sustain—or perhaps better, not to rupture—our country's massive economic interaction with China, has been a critical prerequisite to the powerful progress that the U.S. has managed to achieve this year on the hundreds of issues surrounding China's admission to the WTO; without NTR over the years, it is impossible to imagine the two countries moving as far as they apparently now have done on the bigger, more structural changes that WTO imposes on China.

III. CONCLUSION

Thus, Mr. Chairman and Members of the Subcommittee, the decision to maintain NTR tariffs for the coming year is as fully justified as it has been in the past: it is the cornerstone of a normal bilateral trade and economic relationship and the precondition for gradual expansion of the broad stream of positive U.S.-China contacts. Make no mistake: the continuation of normal economic intercourse between China and the U.S. augurs well for China's continued movement in directions that virtually all Americans would applaud, while the rupturing of economic ties as a result of NTR elimination would, in our view, contribute nothing to the elimination of conditions within China to which many Americans take exception.

Beyond that, though, NTR renewal is a humble but critical prerequisite for something far bigger, and something far more promising for the long-term interests of the United States: conclusion of US-China bilateral negotiations on the terms of China's accession to the rights, rules, and obligations embodied in the World Trade Organization. We urge the Subcommittee, the House Ways & Means Committee, and the Congress to support vigorously annual NTR extension by defeating the Resolution of Disapproval. The US-China Business Council urges the Congress to support with equal vigor, when presented with the opportunity, the extension of full WTO-member status to China, so that we can enjoy the fruits of what promises to be a very significant victory for the American economy and for global economic progress.

Thank you for including these remarks in the record. I have attached a few additional items, by way of illustrating the dimensions of current US-China commercial relations and by way of illustrating an example of what we believe is the constructive role American business plays in the broader US-China Relationship. The recent announcement of grants from the U.S.-China Legal Cooperation Fund is a small but promising example of support—in this case by member companies in the US-China Business Council—for the kind of long-term building-block work that US-China relations require. To date, the Congress has declined to provide any support for similar work at the government-to-government level, in spite of repeated annual requests. We hope that the Congress might in the future be willing to do its part to help with this and other positive programs of US-China cooperation in areas of truly shared interest.

[Attachments are being retained in the Committee files.]

Chairman CRANE. Thank you, Mr. Kapp.

Mr. Sweeney, you suggested that labor conditions and worker rights are deteriorating in China. How would a failure to renew NTR improve the conditions for the Chinese people?

Mr. SWEENEY. Well, I think that we have to address the issues of core labor standards, environmental protection. They are all, as I suggest in my full testimony, there are different approaches to how we do that in terms of the question of China's accession to the WTO, how we consider a working group to explore these issues, and work in conjunction with the ILO. There are basic conventions from the ILO that have been adopted at the ILO regarding all of these basic rights that workers have.

We are not talking about the same wage for Chinese workers as American workers, but we are talking about some freedoms. There are sufficient studies that show the abuses of what is going on in China in terms of wages. We can protect our intellectual property. It is about time we took some concern and care for workers.

Chairman CRANE. Well, our immediate vote that will be coming before us of course is the disapproval resolution on NTR renewal. We don't vote on WTO.

Mr. SWEENEY. I understand.

Chairman CRANE. I am wondering if you have any views on NTR renewal.

Mr. SWEENEY. We are opposed.

Chairman CRANE. You are opposed to renewing NTR?

Mr. SWEENEY. Yes.

Chairman CRANE. Does that help Chinese working conditions?

Mr. SWEENEY. Until the conditions of workers in China are addressed, yes.

Chairman CRANE. All right. Thank you.

Mr. Levin.

Mr. LEVIN. Mr. Kapp, thanks for raising this subject and let me lobby you, try to persuade you. You say we have a global organization because there are differences. What I have been urging, and I feel deeply about this, is that China represents a set of very considerable differences. It presents the supreme challenge of how do you integrate a nonmarket, a still very nonmarket economy, nonmarket in terms of capital or labor, and a nonrule based economy, by far the largest, into an organization whose very premises are market's and rules.

So I don't want you to define away the issue. I don't think you can cite any country that is in the WTO of any real size that has anything close to the combination of China's nonmarket economy and nonrule based system. India, which I have had some chance to spend some time in, is not fully a market economy, but compared to China, it is really very different. That is surely true in terms of the rules. Indonesia, we can argue. But China represents the supreme task. So therefore, it is a difference not of degree, but of kind.

The gentleman sitting next to you raises one set of those issues. There is no country that begins to approach China in size that has its tight control over its labor markets. So we need to face these sets of issues. To some extent, the discussions have. For example, and this was raised by Mr. Sweeney, is the commercial issue, but I think it's also a labor market issue, the discussion about a general safeguard mechanism that the USTR has raised, is presented by them in part because of the huge differentials in labor market conditions. The notion is if the impact of those conditions is very harmful in general to the U.S. economy, we would have a general safeguard protection. I think that is part of the gist.

So I urge you, as we face this, not to narrow the differences so much that Members here don't become engaged in the discussion. By widening them, by being realistic, I don't think it means they are unsolvable or that we accomplish everything over night. Mr. Sweeney said we don't expect the wage differentials to disappear overnight. That's not the issue. That isn't going to happen. The question is whether there is going to be the fluidity in their system so that over time there will be the kind of progress that we want.

Mr. KAPP. Congressman, if I can just quickly respond. First of all, I thank you for your goodwill on this. I think your point, that there needs to be the fullest possible dialog between people of somewhat different views, is absolutely correct. My earlier comment was not meant as a kind of a dismissal of the whole question, although I certainly stand by the point I made.

I do think that the fact that China is systemically very different needs to be balanced, however, by the fact that China is a system

in enormous change, as you and everyone in this room knows very well.

There is more of a labor market already than there was 20 years ago, when everybody was told where to go to school, and what to study, and what job he or she would have for the rest of his or her life. This is a society in the midst of a vast transition.

There are some who would argue that until the transition is done, China should not be accepted into world institutions. That, I think, is probably not an argument that I or perhaps even you would subscribe to.

Mr. LEVIN. I doubt if many do really subscribe to that.

Mr. KAPP. I do think that the forces of what Americans would consider more progressive change in China are the very forces that are the best, if you will, allies that we can seek as China enters the world trading system.

Let me call your attention to today's Wall Street Journal article about the man who set out, almost accidentally, to break up the Chinese telecom monopoly. It is a fascinating story. It is suggestive of the kind of change which is already happening in China and which I think will be assisted and aided by China's integration under the rules and with the obligations and enforcement mechanisms of the WTO, into the norms of the world system.

Mr. LEVIN. I think that should be the arena to debate, not trying to settle it by narrowing the challenge and the differences.

Just quickly 30 seconds to Mr. Valenti. I don't think it will happen, as you suggest, that we will give authorization now.

Mr. SWEENEY. If I may, Mr. Chairman, there are no rules in the WTO at the present time for addressing labor-related issues.

Mr. LEVIN. That is why I think the suggestion about Seattle is so important. We need to have discussions of that with some open minds on it and move it into the forefront. That gets to my point with Mr. Valenti, and I'll finish.

I think we are not going to do that, authorize now, and also I think it would have the negative effect of misleading the Chinese as to what they need to agree to further, including in the area that you suggest. I think it would weaken our bargaining position. Also, I think it would reduce the engagement of Congress in these issues, these last critical months. We need to be fully engaged. So we'll work hard on the issue you raise.

Chairman CRANE. Thank you. Mr. Houghton?

Mr. HOUGHTON. Thanks, Mr. Chairman. Well, gentlemen, thank you very much for being here. I think this is the best panel we have heard so far. Mr. Sweeney is trying to protect American workers. Mr. Valenti and others are trying to protect American products. They are both worthy causes.

But let me just sort of hone in on a couple of things. Jack, if I can ask you first. We heard Michael Eisner a few weeks ago talking about the movie, is it Mulan, that he said was one of the great movies that was just right for China and thought it was going to be a barn burner, and it didn't sell a copy because it was printed. How are you going to stop something like that without a judicial system?

Mr. VALENTI. It didn't sell as many as they wanted to, let's put it that way. There are two things I want to say. First, overall in

our foreign policy, I think it would be a grave blunder if we disengaged from China. Its population of 1.5 billion people is growing fast, and it is undergoing radical change in the political system and in the business climate. You cannot judge one culture by the standards of another. We have to keep in mind that China is vastly different from us. They are going through a revolution, unlike Mao Zedong's revolution, the Great March from Chongqing. They are going through a revolution of the marketplace. Anybody who has spent any time in China is struck almost bewilderingly by the change that has taken place in the last several years. Once you unbundle the genie of change, you can't stuff it back in. The leaders of China know that.

That is why I think in the long-term thinking of this country, we have to have relationships with China. I can understand where Mr. Sweeney is coming from. He represents the working man in this country. It is shameful what things go on there. But we have a lot of things in our country that we find a little bit shameful too. The fact is, we cannot disengage.

Second, piracy is not just indigenous to China. The theft of our copyrighted material is a cancer in the belly of our business. I must say that every day I deploy forces all over this world in 41 different countries, a constabulary that's dealing with this problem of thievery. If you add in all intellectual property, we probably lose about \$20 billion a year. When the Internet gets in full bloom and with broad ban access, I shutter to think, unless we are able to find some magical technological armor plate which will protect our property when it goes into cyberspace.

But the Chinese have been very good, Mr. Houghton, in responding to our pleas to deal with piracy. They have been far more responsive than some other countries with whom we have a warmer relationship, but who I will not name at this table. They have been very good about that. I am hopeful that that will increase. But I do believe that we have to deal with China as a full-fledged equal. That means NTR on a permanent basis, accession to the WTO, and then we'll compete with them as best we can.

Mr. HOUGHTON. Thank you very much. I know time is going on. I would just like to ask Mr. Sweeney a question very briefly. You know obviously we don't want to see American jobs leave this country unfairly. Obviously we don't want to have the increased trade deficit. Certainly we don't want to have Chinese military companies strong arm American companies for technology and all sorts of things like that. But you know, I was struck by Cal Dooley's testimony. Although we're not there yet, he said, "Bringing China into the World Trade Organization"—I'm quoting now—"is more than just a matter of market share. China's accession into the WTO would lock China into a rules-based international organization." How do you feel about that?

Mr. SWEENEY. As I said a few minutes ago, Congressman, the rules aren't there within the WTO at the present time for addressing labor, any issues around labor rights or core labor standards. There has been this discussion going back and forth between the WTO and the ILO as to who should really be addressing these issues. Until the WTO introduces some process such as a working group, which we tried to get in Singapore and we're hopeful there

may be some more attention paid to it in Seattle, but until we get some process where these issues can be taken up and addressed, there are no rules for this.

Mr. HOUGHTON. OK. Thanks very much. Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you. Well, Mr. Sweeney, I worked very hard in Singapore. We had hoped that we would get some standards, some international standards at the WTO. Because Ms. Barshefsky was so aggressive it could be that in Seattle we could see something. But you're speaking about having labor standards, freedom of association, right to organize, collective bargaining, political, religious freedom, and quite frankly, I don't know how in the world we could ever monitor that in China when we don't monitor that in Washington Heights in the Lower East Side. When we have prisoners—and one out of three black kids between 18 and 35 in this country ends up in the criminal justice system—we have them doing work competing with the private sector. We have sweat shops. We have welfare workers replacing civil servants right here in this country by the government making these decisions.

I just don't believe that most of our businesspeople really think that they are going to take these hundreds of millions of workers in these factories and tell them that they are going to have to go to the marketplace and earn a living like most people do in other industrialized countries. Have you ever talked to the Chinese yourself in terms of dealing with the problems they have and the transitions that they would have to go through? Have you dealt with them yourself as a national labor leader?

Mr. SWEENEY. We have had meetings with Chinese government officials, but it has been a one-way conversation. We have attempted to bring international union delegations to China, but the Chinese government refuse to allow us to see or meet with any of the political activists or the labor activists who are in prison. That is one of the criteria that we set for our trip.

Mr. RANGEL. I would like to sit and meet with you to see what tools we have to work with, because when they talk about dismantling these factories, the Chinese are talking about transition. It sounds to me like they are talking about 100 years. Thank you.

Mr. HOUGHTON [presiding]. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. I'm going to be brief, because we have to run to vote. Let me first thank everyone for their presentations and I appreciate the comment that Mr. Sweeney made with regard to the WTO and the fact that at this stage, we don't have anything that does deal with the issue of labor, at least nothing that is binding that would deal with the issue of labor.

Let me limit my question to one, and address it to Mr. Kapp. You went through and commented on some of the remarks that others had made previously. Give me, if you can, just a real quick response to my comments with regard to domestic concerns of folks who lose their jobs here, and TAA, and if we are going to reauthorize it, what we can do to make it better and how we could partner with the private sector to see it work.

Mr. KAPP. Mr. Becerra, I have the pleasure of not running a company. I run an association with 22 employees. It's not only non-profit, it's not even—well, I won't bore you with my finances. So, to speak as though I represent by experience large American business organizations and their views on something like trade adjustment is beyond my ability.

I will tell you what I did think. The fact that you chose to raise that subject, I think, is indicative of a very important underlying issue that Mr. Levin has also touched upon that goes to, if you will, the politics of the WTO and the politics of permanent NTR. Underlying the comments of Mr. Levin, I believe, and the point you particularly chose to mention on TAA, is the idea that there has got to be some way for those who are actually or who perceive themselves to be at risk as China fully enters the world trading system to have their needs addressed, and that that is a political reality that exists right in this building and in the two adjoining buildings every day of the week. In that regard, I take your comments very seriously.

Exactly how trade adjustment ought to be rewritten or how to make it work, when as I'm sure Mr. Sweeney would attest or agree with you, it has not worked perfectly at any time in the past, I cannot even begin to suggest. But the importance of the substratum of what you are talking about, which is, how we deal with the perceived spinoffs of this historic change in the relationship of the United States and China with each other and within the world trading system is something that I listen to very carefully and take very seriously. I do the same with Mr. Levin's repeated injunctions today and at earlier meetings that there be a dialog, and that nobody operate with closed minds, that nobody go in so armored with his views on these issues that he is impervious to the ideas of others. I take your comments in the same vein.

Mr. BECERRA. Thank you, Mr. Chairman. I yield back.

Mr. HOUGHTON. Thank you, gentlemen, Mr. Kapp, Mr. Sweeney, Mr. Valenti, Mr. Gambow, thank you very much for being with us. The meeting is adjourned.

[Whereupon, at 5:45 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of American Apparel Manufacturers Association

Thank you for providing this opportunity to comment on US/China bilateral commercial relations.

The American Apparel Manufacturers Association (AAMA) is the national trade association for the US apparel industry. Our members are responsible for about 85 percent of the \$100 billion worth of garments sold at wholesale in this country every year. Our members manufacture every type of garment and are located in nearly every state. Many also import from nearly every part of the world. Our industry employs about 700,000 Americans.

WTO ACCESSION

Our members have been closely following the discussions regarding China's possible accession to the World Trade Organization (WTO). Our members have a strong interest in the provisions of any China WTO accession protocol—both those that deal with textile and apparel as well as those that deal with other elements of China's trading regime.

Some of our members view China as a competitor. Many rely solely upon domestic production while others base their production and sourcing strategies on partnerships with the Caribbean Basin. At the same time, a number of our members view

China as a potential partner. They either source products from China now or, pending a liberalization of the trading regime, would like to do so in the future.

Uniting these diverse views is the belief that China's WTO accession bid should proceed in a manner that is transparent, consistent with international trading rules, and based on commercial, and not political, grounds.

Accordingly, our association recently approved a resolution supporting an accession protocol for China to join the WTO on the following commercially meaningful terms:

- Textile and apparel imports from China shall be integrated in the Multilateral Fiber Agreement (MFA) phaseout on the same schedule as those from other current WTO members.

- China shall provide market access for textile and apparel products on a priority and non-discriminatory basis. Such market access shall include liberalization of tariffs, elimination of non-tariff trade barriers, establishment of non-discriminatory trading rights, and implementation of non-restrictive investment policies. Liberalization shall commence upon implementation of an accession protocol and must be achieved by January 1, 2005.

- China shall ensure currency convertibility.
- China shall, on an expedited basis, implement the Trade Related Intellectual Property (TRIPs) agreement.

- The United States shall extend permanent, unconditional normal trade relations (NTR) to China.

This position is consistent with the terms of the 1997 Memorandum of Understanding (MOU) which provided for Chinese integration into the Agreement on Textiles and Clothing. It is also consistent with our obligations under the WTO, which is to afford unconditional NTR to member countries. We believe keeping the quotas on China long after they have been discarded for the rest of the world—as some have advocated—is an invitation for transshipment. Moreover, prolonging the apparel quotas on China creates a disincentive for China to adopt the commitments and reforms necessary to ensure greater transparency and access for its market.

China represents too large a participant in the world market to be left out of the disciplines of the international trading regime. Yet, Chinese accession is not an end in itself. Although we believe such accession is important, and is not a goal that should be readily discarded, we would be equally dismayed if an unsatisfactory or unsustainable agreement were adopted merely to meet an arbitrary timetable or a narrow political end.

For China's accession to the WTO to work, it must be done in a way that permits China to assume both the benefits and the responsibilities of full WTO membership.

NORMAL TRADE RELATIONS

AAMA supports the President's action to extend normal trade relations for another year. We believe this step was necessary to comply with the Jackson-Vanik provisions. However, we believe this annual review of China's trading status is disruptive and unnecessary. Unfortunately, the WTO negotiations were not completed in time to avoid the annual debate over NTR this year. As noted above, we would support, in conjunction with a WTO accession agreement, legislation to grant permanent NTR to China.

Statement of American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the domestic textile mill products industry.

ATMI opposes and urges Congress to oppose the accession of the People's Republic of China to the World Trade Organization (WTO) unless major reforms are implemented by China. This opposition is not based on China's egregious behavior with respect to human rights, espionage, or nuclear proliferation—all of which are important matters which can be better addressed by others—but on China's abysmal record with respect to market access, trade policy, investment, and intellectual property protection. China's behavior in these regards disqualifies it from WTO membership. These concerns, as well as China's market distorting fiscal policies and relentless dumping and subsidization, are shared by many other sectors of U.S. industry and ATMI would like to add its voice to those demanding real reform in these areas *before* (emphasis added) China is admitted to the WTO.??

In addition to the above-mentioned, ATMI wishes to call attention to two aspects of trade with China which are unique to the domestic textile industry, its suppliers and apparel producing customers. These are the schedule of phaseout of the quantitative restraints (quotas) maintained by the United States on China's exports of textiles and apparel and China's illegal transshipments of textiles and apparel in order to evade those restraints.

With regard to the first of these, the Uruguay round Agreement on Textiles and Clothing (ATC) stipulates a ten-year phaseout of quotas, beginning on January 1, 1995. We are now at the halfway point of that process, with one-third of total textile and apparel imports declared quota-free and remaining quotas increasing, on average, a generous 8.7 percent annually.¹ All WTO members will have waited ten years before attaining quota-free trade: Thailand has to wait ten years; South Korea has to wait ten years; Turkey has to wait ten years; Bangladesh has to wait ten years. But China does not want to wait ten years. China has flatly rejected the United States' call for a ten-year phaseout and, instead, has insisted that, upon its accession to the WTO, it has the right to join in at the same stage of the phaseout process as all other members. China, the world's largest textile and apparel producer and exporter; China, the world's worst violator of the former Multifiber Agreement; China, the world's biggest subsidizer and dumper, is demanding a five year (or four year, or three year, depending on the date of accession) phaseout.

This is clearly wrong, inequitable and unfair, and therefore should not be permitted. It is wrong for China to be granted a truncated phaseout when all others have to wait ten years, particularly in view of the fact that China is willing to pay nothing for this extraordinary benefit. It is simply bad trade policy and an abnegation of the principles of equity and equal treatment which are (or should be) the cornerstones of the WTO.

It is wrong also because China has repeatedly demonstrated that it can wreak havoc in any market it exports to, not just the United States. In negotiating the ATC, WTO members agreed that ten years was necessary for both developed and developing countries to make the adjustments needed to a quota-free trading environment. The presence of the world's largest exporter entering that environment on terms more favorable than other WTO members was not factored into that decision. Now that China is a factor, WTO members (including and especially the United States, the world's largest textile and apparel importing nation) must be allowed ten years to make the further adjustments newly required. Many WTO members have indicated support privately to U.S. officials for a 10-year phaseout for China, while remaining silent publicly—usually as a show of developing country solidarity or out of fear of China's retaliation.

China's transshipments of textiles and apparel to the United States are not an imaginary or sometime occurrence. They have all been well and repeatedly documented. On more than a dozen occasions, CITA (the Committee for the Implementation of Textile Agreements) has published notices in the Federal Register advising of reductions to China's textile and apparel quotas as punishment for transshipping. The U.S. Customs Service has said on several occasions, most notably in Congressional testimony, that the value of textile and apparel products transshipped by China to the U.S. most likely exceeds \$2 billion annually. Customs has published the names of hundreds of firms in Hong Kong and Macau which have been found guilty *by their governments* (emphasis added) of transshipping Chinese goods to the United States. The government of Taiwan has stipulated that some of its exporters have been similarly engaged. Then, there is the matter of Peter Yeung, a citizen of Hong Kong, who has pleaded guilty in federal court in New York to violations of U.S. law by transshipping Chinese textiles and apparel.

China's transshipments are no minor irritant. They take jobs away from U.S. workers. They are a violation of U.S. law, the U.S.-China bilateral trade agreement and, more to the point, the WTO Agreement on Textiles and Clothing. One is forced to ask how in the world China can be admitted to an international organization, one of whose basic tenets China repeatedly and grievously violates. The answer is that China cannot be admitted until it changes its behavior. Reform and change first; then admission.

¹Approximately five times the annual growth rate of U.S. consumption.

Statement of International Mass Retail Association

This statement is submitted on behalf of the International Mass Retail Association (IMRA), which represents the mass retail industry—consumers' first choice for price, value and convenience. IMRA's membership includes the fastest growing retailers in the world—discount department stores, home centers, category dominant specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores, and off-price stores—and the manufacturers who supply them. IMRA retail members operate more than 106,000 American stores and employ millions of workers. One in every ten Americans works in the mass retail industry, and IMRA retail members represent more than half a trillion dollars in annual sales.

All of IMRA's members are dependent upon imports to provide American consumers with quality and value. Many IMRA members import products directly from China. Others sell products that have been imported by American brand-name consumer product suppliers. China is an important source of supply for such everyday products as clothing and toys. In addition, a handful of IMRA member companies operate stores in China.

Consequently, IMRA's member companies have a strong interest in seeing stable U.S.-Sino relations, both political and economic. IMRA therefore strongly supports renewal of China's Normal Trade Relations (NTR) in 1999; but, more important, supports the eventual accession of China into the World Trade Organization (WTO), and the granting of permanent NTR status.

REVOKING NTR WILL SERIOUSLY DISRUPT CHRISTMAS

Should Congress revoke China's NTR status suddenly, under the terms of the Jackson-Vanik provision of U.S. trade law, serious economic repercussions will result that will harm U.S. consumers, retailers and manufacturers. The loss of NTR status would mean markedly higher import tariffs on a wide range of products, from roller blades to kitchenware. Tariffs would increase on from an average of about 4% to an average of 60%. In some cases, the duty would jump as high as 100%. It has been estimated that revoking NTR would cost American households \$300 per year.

More important, tariffs of 60% or more would result in products simply disappearing from the marketplace. Suppliers would not be able to shift production swiftly; and in many cases alternate suppliers cannot produce products at the same value price. By eliminating NTR in June or July—during the peak months for entering Christmas merchandise—the result will be significantly higher prices and shortages of key Christmas 1999 products. This obviously would hurt American families more than it would the Chinese. Christmas sales account for well over one-third of U.S. retail sales for the entire year. Taking this action, now, will have a significant impact on annual retail sales figures—one of the main drivers of the current economic prosperity.

Consider the following holiday products that could be affected:

China accounts for more than 50% of all toy imports. Revocation of NTR would sharply increase the price of toys in the U.S. This would lead to a reduction in the variety of toys available on IMRA members' shelves. Many of today's most popular toys might not be affordable for American consumers if NTR is revoked.

China is also a major exporter of portable tape and compact disc players to the United States. The average price for these products is about \$84. Without NTR, these products would jump to a price of about \$110. That's a 31% jump. Importers might be able to shift supply to Malaysia, but the average price for this product is about \$98.

Apparel is another important Christmas product for mass retailers. China is an extremely important source of value-priced cotton and man-made fiber products. They are also one of the only sources of silk apparel products such as high-quality women's silk blouses. A loss of NTR would mean a price increase of over 50% for these products. This dramatic increase would affect many consumers' ability to afford these products and would force value-priced silk and cotton products off the shelves of mass retailers.

Over 60% of the footwear sold in the United States is produced in China. Many U.S. consumers rely on the inexpensive footwear produced in China and sold in mass retail stores. The inexpensive boys leather sports footwear, such as high tops, tennis shoes and snow boots would all increase by an average of 15%. This could be devastating to the low-income consumer, preparing to outfit their kids for back-to-school this fall.

Loss of NTR would also hurt IMRA's catalog store members. Many of these companies are putting the finishing touches on their Christmas catalogs right now. By August, their catalogs will be printed with final prices. Should NTR be revoked, these companies, along with their suppliers would be unable to fulfill orders; and would be precluded, under state fair advertising laws, from raising prices. Holiday catalogs cost millions of dollars to print, and their shelf life is very long.

REVOKING NTR NOW WILL JEOPARDIZE WTO ACCESSION TALKS

China's market is currently closed to American retail stores. It is exceptionally difficult for American retailers to open stores because in China, because of Chinese licensing requirements. Obtaining a license can take months or even years. Large-scale retail operations, with many stores, are impossible, because each store location must be separately licensed and financed with unique local partners.

In addition, American companies can only distribute goods that they manufacture in China and cannot own or manage distribution networks or warehouses. The ability to control the distribution process is the lifeblood for an American mass retailer.

During the WTO accession negotiations which took place in April, the Chinese agreed phase out all restrictions on distribution services within three years. This means that American retailers will be able to import and distribute American made products to their stores in China. The easiest way for American products to penetrate the Chinese market is to be sold through an American mass retail store in China. American mass retailers can act as a beach head for American products. It is very important the Chinese do not renege on their commitments made in April.

It is also important to remember that once China becomes a member of the WTO, they would be obligated to play by the rules or be subject to the WTO's dispute settlement process. This process has proven to be very successful for the U.S. (e.g., WTO ruling on the EU banana dispute). What's more, Chinese membership in the WTO provides ample opportunity for further negotiations to liberalize their trade regime.

Unilateral sanctions will not result in widespread democratic change in China; they certainly will not enhance the reciprocal trade relationship; and they will harm U.S. economic interests. However, a strong economic and trade relationship—based on mutually agreed-upon rules such as those embodied by the WTO—will result in change. One has only to look at the progress being made in places like South America to see how economic relationships foster democratic processes.

Statement of Bernard D. Brill, Executive Vice President, SMART

RE: China's Desire to Join the WTO

Congressman Philip Crane, Chairman, Subcommittee on Trade

As Chinese Prime Minister Zhu Rongji campaigns to gain entrance to the WTO, our association members are asking a simple question, "If goods from China are allowed into the U.S. without special rules and tariffs, why aren't U.S. goods being given the same consideration?"

Believe it or not, recycled clothing is officially banned in China at the same time millions of pounds of new clothing is exported to the U.S. SMART asks that the U.S. Government inform Chinese officials that only when there is "fair" trade will there be "free" trade.

SMART, the Secondary Materials and Recycled Textiles Association, represents nearly 300 businesses involved with the recycling of pre and post recyclable textile materials. Our industry employs approximately 25, 000 unskilled and semi-skilled people. Most of these companies are small, family owned business located in our country's inner cities—where jobs are often most difficult to find. In fact, many of our members have hired people off the welfare rolls and other disadvantaged individuals!

While members of this industry agree with the premise of allowing China into the WTO, why should U.S. companies be banned from this market? *This is an excellent opportunity to completely open the trade lanes for U.S. exporters and help offset our country's growing trade deficit.* Please do not miss the opportunity to settle this matter once and for all.

BACKGROUND

Members of SMART are capable of shipping large quantities of recycled clothing, fabric, and other household textile products to developing countries. According to the U.S. Department of Commerce, recycled textiles are this country's eighth most exportable item—just behind automobile parts and wheat! This “environmentally correct” industry has existed since the industrial revolution and provides important products and services while providing thousands of jobs.

While this industry does not generate a great deal of publicity, it is responsible for providing clothing to those in non-OECD countries. However, certain countries like China forbid the importation of recycled clothing!

As you decide on whether to include China as a partner in the World Trade Organization, please give this matter serious consideration. While SMART encourages and believes free trade is in the best interest of all concerned, we urge the U.S. to maintain a “level playing field” in this endeavor.

Please insist that China and all countries deal fairly with U.S. exporters to encourage free trade in today's global marketplace.

Submitted by,
Bernard D. Brill
Executive Vice President

