

# RENEWAL OF NORMAL TRADE RELATIONS WITH CHINA

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

—————  
JULY 10, 2001  
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**Serial No. 107-41**

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**RENEWAL OF NORMAL TRADE RELATIONS  
WITH CHINA**

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**TUESDAY, JULY 10, 2001**

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

The Subcommittee met, pursuant to notice, at 2:05 p.m., in room 1100 Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory and revised advisory announcing the hearing follow:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE  
June 28, 2001  
No. TR-4

CONTACT: (202) 225-1721

### Crane Announces Hearing on Renewal of Normal Trade Relations With China

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 status of China's negotiations to the World Trade Organization (WTO). **The hearing will take place on Tuesday, July 10, 2001, in B-318 Rayburn House Office Building, beginning at 2 p.m.**

Invited witnesses include Assistant United States Trade Representative, Jeffrey Bader. Testimony will also be received from private sector witnesses. In addition, 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:

At present, China's trade status is subject to the Jackson-Vanik amendment to Title IV of the Trade Act of 1974, the provisions of law governing the most-favored-nation (MFN) trade status, now referred to as normal trade relations (NTR), of non-market economy countries ineligible for MFN treatment as of the enactment of the Trade Act.

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

The annual Presidential waiver authority under the Trade Act expires on July 3 of each year. The renewal procedure requires the President to submit to Congress a recommendation for a 12-month extension by no later than 30 days prior to the waiver's expiration (i.e., by not later than June 3). The waiver authority continues in effect unless disapproved by Congress within 60 calendar days after the expiration of the existing waiver. 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. On June 1, 2001, President Bush issued his determination to waive the requirements for China for the period of July 3, 2001, to July 2, 2002 (H. Doc. 107-79). H. J. Res. 50, a joint resolution disapproving the extension of the waiver authority contained in section 402(c) of the Trade Act of 1974 with respect to China was introduced by Congressman Dana Rohrabacher (R-CA) on June 5, 2001.

P.L. 106-286 (enacted October 10, 2000) amended Title IV of the Trade Act of 1974 to remove China from the list of countries subject to this provision upon the

accession of China to the WTO and upon certification by the President that the final terms of accession are at least equivalent to the terms of the November 15, 1999, bilateral agreement between the United States and China.

On June 8, 2001, during bilateral talks in Shanghai, the United States and China reached agreement on major outstanding issues concerning China's accession to the WTO. United States Trade Representative Robert B. Zoellick and Minister of Foreign Trade and Economic Cooperation Shi Guangsheng capped 15 years of negotiations on areas including domestic support for agriculture, services, and trading rights.

Several important steps remain ahead in China's WTO accession process. The bilateral agreement between the United States and China will be considered at the next China Working Party meeting in Geneva beginning on June 28. The WTO's General Council must then adopt China's accession package, after which China will have to complete its domestic ratification procedures. China will become a WTO member 30 days after filing its notice of acceptance with the WTO.

In announcing the hearing, Chairman Crane said: "It is indeed heartening for those of us who support normalizing U.S. trade relations with China to observe that China's negotiations to join the WTO are close to concluding. The momentum for opening trade with China is building. Last year, we passed the permanent normal trade relations legislation, and earlier this month, USTR made significant progress with the Chinese to further open their markets to our goods and services. We need to keep the momentum going by renewing China's NTR status for another year."

#### **FOCUS OF THE HEARING:**

The focus of the hearing will be to evaluate overall U.S. trade relations with the People's Republic of China and the status of China's negotiations to join the WTO, and to consider the extension of NTR status for China for an additional year. The Subcommittee will be interested in hearing testimony on China's emigration policies and practices, the nature and extent of U.S. trade and investment ties with China and related issues, and the potential impact on China, Hong Kong, Taiwan, and the United States of a termination of China's NTR status. Finally, witnesses may also address U.S. objectives in ongoing negotiations over conditions upon which China will enter the WTO, as well as the anticipated impact of WTO membership on U.S. workers, industries, and other affected parties.

#### **DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:**

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bill Covey at (202) 225-1721 no later than the close of business, Friday, June 29, 2001. The telephone request should be followed by a formal written request to Allison Giles, 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 or MS Word 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 July 5, 2001. 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 or MS Word format, with their name, address, and hearing date noted on a label*, by the close of business, Wednesday, July 11, 2001, to Allison Giles, 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 or MS Word 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://waysandmeans.house.gov>."

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.





\* \* \* NOTICE—CHANGE IN LOCATION \* \* \*

## **ADVISORY**

FROM THE COMMITTEE ON WAYS AND MEANS

### **SUBCOMMITTEE ON TRADE**

FOR IMMEDIATE RELEASE,  
July 9, 2001  
No. TR-4—Revised

CONTACT: (202) 225-1721

### **Change in Location for Subcommittee Hearing on Renewal of Normal Trade Relations With China**

Congressman Crane (R-IL), Chairman of the Ways and Means Subcommittee on Trade, today announced that the Subcommittee hearing on United States-China trade relations and the status of China's negotiations to the World Trade Organization (WTO) **will now be held in the main Committee hearing room, 1100 Longworth House Office Building.**

All other details for the hearing remain the same. (See Subcommittee press release No. TR-4 dated June 27, 2001.)

Chairman CRANE. If everyone will please take their seats, we will get underway. And our first panel consists of our distinguished colleagues, the Honorable Frank Wolf from Virginia, the Honorable Nancy Pelosi from California, the Honorable Dana Rohrabacher from California, the Honorable Sherrod Brown from Ohio, and our distinguished colleague from—wait a second—Oregon—OK, we got it—Mr. Blumenauer.

I would like to have you proceed in the order that I presented you, and if you will please try and keep your oral testimony to 5 minutes or less, and all written testimony will be made a part of the permanent record. Nancy brought a ton. Thank you. And we will have opening statements.

But before we yield to you, Frank, I want to yield to Sandy here, our distinguished Ranking Minority Member.

Mr. LEVIN. Welcome. I have an opening statement. Mr. Chairman, you don't have one. I think I will read it.

First of all, I want to say, though, welcome to you, to all five of you. This is an issue that all five of us and many others have discussed over the years, and it deserves this hearing, and we are especially pleased that the five of you who have given so much to this issue are here.

About a year ago, many of us thought we would not be here, but since China has not yet acceded to the World Trade Organization (WTO), we are faced with another vote and, as I see it, we should look upon this as an opportunity, not a problem, but an opportunity to assess the state of our economic relationships with China and other relevant issues.

In the past 12 months there has been continuing, indeed often accelerated, change in China. At the same time, in important respects, China has stayed the same. It is important we take note of both.

China has continued to move away from a State-dominated to a free market economy. This has been most true in industrial sectors. Private enterprise is spreading beyond the coastal areas where it earlier gained footholds. The rapid growth of the Internet continues to challenge authoritarian controls. Cracks are even appearing in the complete domination of the State over the legal system. China is witnessing for the first time some successful suits to redress grievances of or injuries to individuals and workers. Earlier this year China ratified the U.N. Convention on Economic and Social Rights.

In striking ways, however, conditions in China have not changed, the State remains a dominant force in the economy. There continues to be a trampling of basic human rights. China has continued its campaign against the Falun Gong movement, including imprisonment and possibly torture of its followers, and many of those followers have died while in State custody. China's repression of Tibet continues. It has detained a number of scholars and American citizens—one goes on trial next week—and it continues to thwart free speech.

It now appears that the key issues relating to China's accession to the WTO have been resolved or are very close to resolution. China's entry into the WTO should accelerate its movement toward a freer economy. Boosted by the recent accords, it should be true in agriculture as well as industry and services. Though the developments of last year provides support for both parts of the basic premise of last year's action on China Permanent Normal Trade Relations (PNTR), the U.S. has no realistic choice but to engage with, but it also must keep pressure on China as to the direction it is taking. That was reinforced by the security issues that figured prominently in our relationship this last year.

As part of the effort to keep the pressure on China, several steps were taken in last year's PNTR legislation. One was establishing a congressional executive commission on the People's Republic of China. This commission should be up and running this month, well before China's accession to the WTO. It will monitor China's compliance with human rights, including worker rights, compile lists of victims of human rights abuses, and monitor development of the rule of law in China. It will release annual reports setting forth its findings, allowing for a full airing of the facts and issues. The China commission must play an important role in the dynamic of engagement with and pressure on China.

As the trade deficit with China has continued to grow and China's competition with American products increases, the commitment which the U.S. obtained with respect to antidumping and the anti-surge mechanism have become more important. In the PNTR legislation we created the toughest anti-surge and anti-trade diversion provisions ever enacted into U.S. law. As I understand it, the most recent round of negotiations have ensured the U.S. right to use its special antidumping analysis against China.

Finally, and crucially important as we move forward in our trading and economic relationships with China, is the issue of implementation. Benefits of expanded trade with China for American businesses and workers could be illusory unless the U.S. remains vigilant, especially because of the weak rule of law structures in China. In the PNTR legislation we inserted various mechanisms to ensure monitoring and implementation. Additionally, the United States Trade Representative (USTR) successfully delivered on an item requested in that legislation, a special annual review by the WTO of China's compliance with its protocol of accession. These annual reviews will go on for the first 8 years after China's WTO accession, with one more review to cap China's first decade in the WTO.

Equally important, and I mention to my colleagues here, will be the implementation, assistance and monitoring that the U.S. will conduct on its own. We must pursue and fund these programs vigorously. I think that last year's China PNTR legislation embodied a right mix of policy. Moving forward we must follow through with each of these policies to ensure that we continue to shape our relationship with China.

Thank you, Mr. Chairman.

Chairman CRANE. I too want to welcome all of our panelists, and this hearing of the Ways and Means Trade Subcommittee is to evaluate our overall U.S.-China trade relations and to consider the brief extension of normal trade relations status to help expedite China's imminent succession to the World Trade Organization.

On October 10th of last year, the President signed legislation terminating the application of the 1974 Jackson-Vanik statute which requires the annual consideration of China's normal trade relations, NTR, status. By a vote of 273 to 197, the House voiced its unwavering support on a bipartisan basis for the momentous economic and social reforms taking place in China and committed to extend permanent normal trade relations to China upon its succession to the WTO.

That firm commitment demonstrated this body's overwhelming support for bringing China into the rules-based trading system. Under this deal our tariff on the Chinese imports will not change, while Chinese tariffs on our imports will be sharply reduced. China's succession agreement also requires it to undertake a wide range of market-opening reforms to key sectors of its economy still under State control. Therefore, unlike any other major trade agreement, these negotiations represent a set of one-sided concessions that will grant the United States unprecedented access to China's 1.2 billion customers.

[The opening statement of Chairman Crane follows:]

**Opening Statement of the Hon. Philip M. Crane, a Representative in Congress from the State of Illinois, and Chairman, Subcommittee on Trade**

Good afternoon. This hearing of the Ways and Means Trade Subcommittee is to evaluate overall U.S.-China trade relations and to consider the brief extension of normal trade relations (NTR) status to help expedite China's imminent accession to the World Trade Organization (WTO).

On October 10th last year, the President signed legislation terminating the application of the 1974 Jackson-Vanik statute which requires the annual consideration of China's normal-trade-relations (NTR) status. By a vote of 273 to 197, the House voiced its unwavering support for the momentous economic and social reforms tak-

ing place in China, and committed to extend permanent normal trade relations (PNTR) status to China—upon its accession to the WTO.

That firm commitment demonstrated this Body's overwhelming support for bringing China into the rules-based trading system. Under this deal, our tariffs on Chinese imports will not change, while Chinese tariffs on our exports will be sharply reduced. China's accession agreement also requires it to undertake a wide range of market-opening reforms to key sectors of its economy still under state control. Therefore, unlike any other major trade agreement, these negotiations represent a set of one-sided concessions that will grant the United States unprecedented access to China's 1.2 billion consumers.

On June 11, the United States and China reached a breakthrough agreement on all of the remaining bilateral trade-liberalization issues, removing a key stubborn obstacle to China's full and prompt entry into the WTO. In response, China has indicated its intent to become a member of the WTO by the end of this year, so it can participate in the WTO ministerial meetings in Qatar and join the anticipated new global round of trade negotiations.

This breakthrough represents the culmination of 15 years of negotiations, and is exceptionally good news. It now appears that Congress need only re-authorize NTR status one last time—for the span of just a few months—before China becomes a full member of the WTO. In light of the historic policy decision made last fall we must keep the momentum moving forward toward our common goal of integrating China into the international system of rules and standards. It is my judgement that, after 15 years, we are almost there.

Of course, I will be the first to admit that relations with China continue to be rocky and rancorous. Yet, slapping China through 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 wish for them.

Nothing would be better for America's long term national security interests in China and the Asian region than ensuring that China begins this century on an economic reform path shaped and defined by the free-market trade rules of the WTO.

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Chairman CRANE. And with that, then, I would like to proceed, and we will start, as I indicated before, with our distinguished colleague from Virginia, Mr. Wolf.

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

Mr. WOLF. I thank you, Mr. Chairman. I think it is time we as a legislative body face reality about the People's Republic of China. We have annually debated trade relations with China. We have heard about human rights abuses, religious persecution, and nuclear arms sales. But sometimes we must get a sense of how Winston Churchill must have felt in the thirties, 1935, 1936, 1937, 1938, when he was talking about Nazi Germany and the world just ignored him, as did the House of Commons.

It has annually been the will of the Congress that we engage in trade with China with the expectation that human rights would improve, but the expectations have fallen short. As we have increased trade, the human rights situation in China has grown worse. For the past 2 years the Department of State's annual report—which very few, if any, people actually read—on human rights in China stated this clearly, and it said, “the government's poor human rights record has deteriorated markedly,” and “the government's poor human rights record worsened and they continued to commit numerous serious abuses.”

Giving China most favored nation (MFN) status hasn't changed for better the lives of thousands of men and women languishing in forced labor prison camps. Human rights violations in China are

about people suffering. They are not about trade. Human rights violations in China are about people of faith, people with faith in God, Catholic priests, Catholic bishops, Protestant pastors, all being sent to a dismal prison cell because of their having faith. When China violates its own citizens' human rights, people die. People are put in prison and families suffer.

I recently read, as I think most of the members did, the graphic testimony of a Chinese doctor who participated in the removal of organs and skin from executed prisoners in China. He writes that his work, "required me to remove skin and corneas from the corpses of over one hundred executed prisoners and, on a couple of occasions, victims of intentionally botched executions."

What kind of government skins alive and sells the organs of its own citizens? And the answer is the Chinese government does.

The Government of China also persecutes and imprisons people because of their faith. The U.S. Department of State recently sent a letter to me on the status of religious freedom, which I enclose for the record.

The letter states: The Government of China persecutes believers of many faiths, including Roman Catholics, Muslims, Tibetan Buddhists and Protestants. It is estimated that some 10 Catholic bishops, scores of Catholic priests and Protestant house church leaders, 100 to 300 Tibetan Buddhists, hundreds perhaps thousands, of Falun Gong adherents, and an unknown but possible significant number of Muslims are in various forms of detention in China for expression of their belief, their spiritual faith.

[The following was subsequently received:]

U.S. Department of State  
Washington, DC 20520  
*May 31, 2001*

Dear Mr. Wolf:

This is in response to your request of Acting Assistant Secretary Michael Parmly for additional information during his testimony before the Human Rights Caucus on May 15 on the status of religious freedom in China. We appreciate your concern about the recent deterioration of religious freedoms in China and the large number of persons held in China for the peaceful expression of their religious or spiritual views. We regret the delay in responding to your request for information, but we wanted to provide as comprehensive a list of these individuals as possible.

We currently estimate that roughly ten Catholic Bishops, scores of Catholic priests and house church leaders, 100-300 Tibetan Buddhists, hundreds (perhaps thousands) of Falun Gong adherents, and an unknown but possibly significant number of Muslims are in various forms of detention in China for the expression of their religious or spiritual beliefs. The forms of detention range from de facto house arrest to imprisonment in maximum security prisons. As you know, we regularly raise cases of religious prisoners with Chinese officials both here and in China. Our information about such cases comes from sources as diverse as religious dissidents, human rights NGOs, interested Americans and, most importantly, regular reporting from our embassies and consulates. Unfortunately, the opaqueness of the Chinese criminal justice system and absence of any central system that provides basic information on who is incarcerated and why makes it exceedingly difficult to determine the exact number of religious prisoners currently being held in China. We have, however, attached lists of cases of particular concern that we have raised with Chinese authorities or have included in our human rights and religious freedom reports.

We recognize the importance of compiling and maintaining a database of political and religious prisoners from additional sources such as Chinese newspapers and government notices and appreciate Congressional interest in providing us additional resources to fund such activities. At present, the Bureau for Democracy, Human Rights and Labor is discussing with the International Republican Institute a pro-

posal which will be submitted through the National Endowment for Democracy. This proposal will be for a Human Rights and Democracy Fund grant specifically for the purpose of funding a U.S. NGO's efforts to develop and maintain a list of political and religious prisoners in China.

Such a database will be extremely valuable to the human rights work done not only by this bureau but also by other government agencies, the Congress, and NGOS. We welcome your interest in and support of this effort and look forward to cooperative efforts to develop and fund a comprehensive record of religious prisoners in China.

In the meantime, we hope the information in this letter and the attached lists are helpful to you. We would welcome any case information that you might have available that could improve the quality of this list.

Sincerely,

Michael E. Guest  
Acting Assistant Secretary  
Legislative Affairs

Enclosure:  
Listing of Religious Prisoners in China

### Illustrative List of Religious Prisoners in China

Note: See comments in cover letter. The following illustrative list is compiled from various sources, including information provided to us by reputable non-governmental organizations and from the State Department's annual reports on human rights and on religious freedom. We cannot vouch for its overall accuracy or completeness.

#### **MUSLIMS**

Xinjiang Abduhelil Abdumijit  
Turhong Awout  
Rebiya Kadeer  
Zulikar Memet  
Nurahmet Niyazi  
Dulkan Rouz  
Turhan Saidalamoud  
Alim Younous  
Krubanjiang Yusseyin

#### **Status**

Tortured to death in custody  
Executed  
Serving 2nd year in prison  
Executed  
Sentenced to death  
Executed  
Sentenced to death  
Executed  
Sentenced to death

#### **PROTESTANTS (misc.)**

Qin Baocai  
Zhao Dexin  
Liu Haitao  
Miao Hailin  
Han Shaorong  
Mu Sheng  
Li Wen  
Yang Man  
Chen Zide

Re-education through labor sentence  
Serving 3rd year in prison  
Tortured to death in custody  
Serving 3rd year in prison  
Serving 3rd year in prison  
Re-education through labor sentence  
Serving 3rd year in prison  
Serving 3rd year in prison  
Serving 3rd year in prison

#### **EVANGELISTIC FELLOWSHIP**

Hao Huaiping  
Jing Quinggang  
Shen Yiping

Serving re-education sentence  
Serving re-education sentence  
Re-education; status unknown

#### **COLD WATER RELIGION**

Liu Jiaguo

Executed in October 1999

#### **FENGCHENG CHURCH GROUP**

Zheng Shuqian  
David Zhang

Re-education; status unknown  
Re-education; status unknown

#### **CATHOLICS**

##### **Bishops**

Bishop Han Dingxiang  
Bishop Shi Engxiang  
Bishop Zeng Jingmu  
Bishop Liu  
Bishop Jiang Mingyuan  
Bishop Mattias Pei Shangde

Arrested in 1999, status unknown  
Arrested in October 1999  
Rearrested on September 14, 2000  
House arrest in Zhejiang  
Arrested in August 2000  
Arrested in early April 2001

Bishop Xie Shiguang	Arrested in 1999; status unknown
Bishop Yang Shudao	Arrested Feb. 2001; status unknown
Bishop An Shuxin	Remains detained in Hebei
Bishop Li Side	House Arrest
Bishop Zang Weizhu	Detained in Hebei
Bishop Lin Xili	Arrested Sept. 1999, status unknown
Bishop Su Zhimin	Whereabouts unknown
<b>Priests</b>	
Fr. Shao Amin	Arrested September 5, 1999
Fr. Wang Chengji	Serving re-education sentence
Fr. Wang Chengzhi	Arrested September 13, 1999
Fr. Zhang Chunguang	Arrested May 2000
Fr. Lu Genjun	Serving 1st year of 3 year sentence
Fr. Xie Guolin	Serving 1st year of 1 year sentence
Fr. Li Jianbo	Arrested April 19 2000
Fr. Wei Jingkun	Arrested August 15, 1998
Fr. Wang Qingyuan	Serving 1st year of 1 year sentence
Fr. Xiao Shixiang	Arrested June 1996, status unknown
Fr. Hu Tongxian	Serving 3rd year of 3 year sentence
Fr. Cui Xingang	Arrested March 1996
Fr. Guo Yibao	Arrested April 4 1999
Fr. Feng Yunxiang	Arrested April 13 2001
Fr. Ji Zengwei	Arrested March 2000
Fr. Wang Zhenhe	Arrested April 1999
Fr. Yin	Serving 1st of 3 year sentence
Fr. Kong Boucu	Arrested October 1999
Fr. Lin Rengui	Arrested Dec. 1997, status unknown
Fr. Pei Junchao	Arrested Jan. 1999, status unknown
Fr. Wang Chengji	Arrested Dec. 1996, status unknown
<b>TIBETAN BUDDHISTS</b>	
<b>Lamas</b>	
Gendun Choekyi Nyima	House Arrest
Pawo Rinpoche	House Arrest
<b>Nuns</b>	
Ngawang Choekyi	Serving 9th year of 13 year sentence
Ngawang Choezom	Serving 9th year of 11 year sentence
Chogdrub Drolma	Serving 6th year of 11 year sentence
Jamdrol	Serving 6th year of 7 year sentence
Namdrol Lhamo	Serving 9th year of 12 year sentence
Phuntsog Nyidrol	Serving 12th year of 17 year sentence
Yeshe Palmo	Serving 4th year of 6 year sentence
Ngawang Sangdrol	Serving 9th year of 21 year sentence
Jigme Yangchen	Serving 11th year of 12 year sentence
<b>Monks</b>	
Ngawang Gyaltzen	Serving 12th year of 17 year sentence
Ngawang Jamtsul	Serving 12th year of 15 year sentence
Jamphel Jangchub	Serving 12th year of 18 year sentence
Ngawang Kalsang	Serving 6th year of 8 year sentence
Thubten Kalsang	Sentence not reported
Lobsang Khetsun	Serving 5th year of 12 year sentence
Phuntsok Legmon	Sentenced to 3 years in prison
Namdrol	Sentenced to 4 years in prison
Yeshe Ngawang	Serving 12th year of 14 year sentence
Ngawang Oezer	Serving 12th year of 17 year sentence
Ngawang Phuljung	Serving 12th year 19 year sentence
Lobsang Phuntsog	Serving 6th year of 12 year sentence
Sonam Phuntsok	Arrested in October 1999
Phuntsog Rigchog	Serving 7th year of 10 year sentence
Lobsang Sherab	Serving 5th year of 16 year sentence
Sonam Rinchen	Serving 15 year sentence
Ngawang Sungrab	Serving 9th year of 13 year sentence
Jampa Tenkyong	Serving 10th year of 15 year sentence
Ngawang Tensang	Serving 10th year of 15 year sentence
Lobsang Thubten	Serving 7th year of 15 year sentence
Agya Tsering	Arrested in October 1999
Trinley Tsondru	Serving 5th year of 8 year sentence

Mr. WOLF. What kind of government imprisons its nation's religious leaders? The answer is it is China. When China violates its own citizens' human rights, people die, they suffer.

Today is the 150th day a mother and a wife, a permanent resident from my Congressional District, has been in jail, Dr. Gao Zhan. The Chinese government took her away, has not allowed our government to talk to her, separated her from her 5-year-old child, and today we still don't know anything about her.

Successive Presidents and previous Congresses have acted to trade with the People's Republic of China, expecting China's human rights record to improve. After nearly two decades of many different administrations, Republican and Democrat, in which China has received MFN status, it is clear religious freedom and human rights have been given lip service.

It is time to try something new, and that is to link these things together the way that we have in other areas. I don't expect this Congress to do it. I don't expect this administration to do it. And I will predict that human rights in China will continue to get worse and worse and people will be imprisoned and killed for their fundamental beliefs, because they have faith in God and they want to practice it.

And I thank the gentleman for the opportunity, and I yield back the balance of my time.

[The prepared statement of Mr. Wolf follows:]

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

Mr. Chairman, thank you for the opportunity to testify today.

I think it is time we as a legislative body face reality about the People's Republic of China. We've annually debated trade relations with China. We've heard about human rights abuses, religious persecution, nuclear arms sales. And it has annually been the will of the Congress that we engage in trade with China with the expectation that human rights would improve.

But the expectations have fallen short. As we have increased trade, the human rights situation in China has grown worse. For the past two years, the Department of State's annual report on human rights in China has stated this clearly, saying: "the Government's poor human rights record has deteriorated markedly" and "the Government's poor human rights record worsened, and it continued to commit numerous serious abuses."

Giving China most favored nation status hasn't changed for the better the lives of thousands of men and women languishing in forced labor prison camps. Human rights violations in China are about people who are suffering. Human rights violations in China are about people of faith being thrown into a dismal prison cell because of their faith.

When China violates its own citizens' human rights, people die, people suffer and families are torn apart.

I recently read the graphic testimony of a Chinese doctor who participated in the removal of organs and skin from executed prisoners in China. Dr. Wang Guoqi was a skin and burn specialist employed at a People's Liberation Army hospital. He recently testified before the House International Relations Subcommittee on International Organizations and Human Rights on the Government of China's involvement in the execution, extraction, and trafficking of prisoner's organs. I enclose Dr. Wang's statement for the record.

Dr. Wang writes that his work "required me to remove skin and corneas from the corpses of over one hundred executed prisoners, and, on a couple of occasions, victims of intentionally botched executions."

What kind of government skins alive and sells the organs of its own citizens?



The Government of China also persecutes and imprisons people because of their religious beliefs. The U.S. Department of State recently sent me a letter on the status of religious freedom in China, which I enclose for the record. This letter states that the Government of China persecutes believers of many faiths, including Roman Catholics, Muslims, Tibetan Buddhists and Protestant Christians.

It is estimated that some “ten Catholic Bishops, scores of Catholic priests and [Protestant] house church leaders, 100–300 Tibetan Buddhists, hundreds (perhaps thousands) of Falun Gong adherents, and an unknown but possible significant number of Muslims are in various forms of detention in China for the expression of their religious or spiritual beliefs.”

What kind of government imprisons its nation’s religious leaders?

When China violates its own citizens’ human rights, people die, people suffer and families are torn apart.

Today is the 150<sup>th</sup> day a mother and wife and permanent U.S. resident has spent in a Chinese jail. Dr. Gao Zhan is a researcher at American University here in Washington, D.C. She is my constituent. She studies women’s issues. One hundred and fifty days ago, Chinese authorities detained Gao Zhan and her husband and their 5-year-old son, Andrew. In the matter of an instant, this happy young family was torn apart by the regime in Beijing. A 5-year-old child was taken from his parents, a young couple was divided by prison walls and armed guards. Imagine how you would feel if the Government of China did this to your family. Imagine how you would feel if the Government of China put your 5-year-old son in prison.

What kind of government imprisons mothers who are academic experts on women’s issues?

Successive Presidents and previous Congresses have acted to trade with the People’s Republic of China expecting China’s human rights record to improve. After nearly two decades in which China has received most favored nation status, it is clear religious freedom and human rights have been given lip service by the Chinese government.

It is time to try something new in our China policy. If the U.S. wants China’s human rights record to improve, the U.S. ought to withhold normal trade status until the Chinese government proves that it will treat its own people, its mothers, fathers, religious leaders and even common criminals with the dignity, compassion and respect that all human life deserves.

TESTIMONY OF WANG GUOQI  
FORMER DOCTOR AT A CHINESE PEOPLE’S LIBERATION ARMY HOSPITAL  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS AND HUMAN RIGHTS  
OF THE  
UNITED STATES HOUSE OF REPRESENTATIVES

My name is Wang Guoqi and I am a 38-year-old physician from the People’s Republic of China. In 1981, after standard childhood schooling and graduation, I joined the People’s Liberation Army. By 1984, I was studying medicine at the Paramilitary Police Paramedical School. I received advanced degrees in Surgery and Human Tissue Studies, and consequently became a specialist in the burn victims unit at the Paramilitary Police Tianjin General Brigade Hospital in Tianjin. My work required me to remove skin and corneas from the corpses of over one hundred executed prisoners, and, on a couple of occasions, victims of intentionally botched executions. It is with deep regret and remorse for my actions that I stand here today testifying against the practices of organ and tissue sales from death row prisoners.

My involvement in harvesting the skin from prisoners began while performing research on cadavers at the Beijing People’s Liberation Army Surgeons Advanced Studies School, in Beijing’s 304th Hospital. This hospital is directly subordinate to the PLA, and so connections between doctors and officers were very close. In order to secure a corpse from the execution grounds, security officers and court units were given “red envelopes” with cash amounting to anywhere between 200–500 RMB per corpse. Then, after execution, the body would be rushed to the autopsy room rather than the crematorium, and we would extract skin, kidneys, livers, bones, and corneas for research and experimental purposes. I learned the process of preserving human skin and tissue for burn victims, and skin was subsequently sold to needy burn victims for 10 RMB per square centimeter.

After completing my studies in Beijing, and returning to Tianjin’s Paramilitary Police General Brigade Hospital, I assisted hospital directors Liu Lingfeng and Song Heping in acquiring the necessary equipment to build China’s first skin and tissue storehouse. Soon afterward, I established close ties with Section Chief Xing, a criminal investigator of the Tianjin Higher People’s Court.

Acquiring skin from executed prisoners usually took place around major holidays or during the government's Strike Hard campaigns, when prisoners would be executed in groups. Section Chief Xing would notify us of upcoming executions. We would put an order in for the number of corpses we'd like to dissect, and I would give him 300 RMB per cadaver. The money exchange took place at the Higher People's Court, and no receipts or evidence of the transaction would be exchanged.

Once notified of an execution, our section would prepare all necessary equipment and arrive at the Beicang Crematorium in plain clothes with all official license plates on our vehicles replaced with civilian ones. This was done on orders of the criminal investigation section. Before removing the skin, we would cut off the ropes that bound the criminals' hands and remove their clothing. Each criminal had identification papers in his or her pocket that detailed the executee's name, age, profession, work unit, address, and crime. Nowhere on these papers was there any mention of voluntary organ donation, and clearly the prisoners did not know how their bodies would be used after death.

We had to work quickly in the crematorium, and 10–20 minutes were generally enough to remove all skin from a corpse. Whatever remained was passed over to the crematorium workers. Between five and eight times a year, the hospital would send a number of teams to execution sites to harvest skin. Each team could process up to four corpses, and they would take as much as was demanded by both our hospital and fraternal hospitals. Because this system allowed us to treat so many burn victims, our department became the most reputable and profitable department in Tianjin.

Huge profits prompted our hospital to urge other departments to design similar programs. The urology department thus began its program of kidney transplant surgeries. The complexity of the surgery called for a price of \$120–150,000 RMB per kidney.

With such high prices, primarily wealthy or high-ranking people were able to buy kidneys. If they had the money, the first step would be to find a donor-recipient match. In the first case of kidney transplantation in August 1990, I accompanied the urology surgeon to the higher court and prison to collect blood samples from four death-row prisoners. The policeman escorting us told the prisoners that we were there to check their health conditions; therefore, the prisoners did not know the purpose for their blood samples or that their organs might be up for sale. Out of the four samplings, one basic and sub-group blood match was found for the recipient, and the prisoner's kidneys were deemed fit for transplantation.

Once a donor was confirmed, our hospital held a joint meeting with the urology department, burn surgery department, and operating room personnel. We scheduled tentative plans to prepare the recipient for the coming kidney and discussed concrete issues of transportation and personnel. Two days before execution, we received final confirmation from the higher court, and on the day of the execution, we arrived at the execution site in plain clothes. In the morning, the donating prisoner had received a heparin shot to prevent blood clotting and ease the organ extraction process. When all military personnel and condemned prisoners would arrive at the site, the organ-donating prisoner was brought forth for the first execution.

At the execution site, a colleague, Xing Tongyi, and I were responsible for carrying the stretcher. Once the hand-cuffed and leg-ironed prisoner had been shot, a bailiff removed the leg irons. Xing Tongyi and I had 15 seconds to bring the executee to the waiting ambulance. Inside the ambulance, the best urologist surgeons removed both kidneys, and rushed back to the waiting recipient at the hospital. Meanwhile, our burn surgery department waited for the execution of the following three prisoners, and followed their corpses to the crematorium where we removed skin in a small room next to the furnaces. Since our director had business ties with the Tianjin Ophthalmologic Hospital and Beijing's 304th Hospital, he instructed us to extract the executee's corneas as well.

Although I performed this procedure nearly a hundred times in the following years, it was an incident in October 1995 that has tortured my conscience to no end. We were sent to Hebei Province to extract kidneys and skin. We arrived one day before the execution of a man sentenced to death for robbery and the murder of a would-be witness. Before execution, I administered a shot of heparin to prevent blood clotting to the prisoner. A nearby policeman told him it was a tranquilizer to prevent unnecessary suffering during the execution. The criminal responded by giving thanks to the government.

At the site, the execution commander gave the order, "Go!" and the prisoner was shot to the ground. Either because the executioner was nervous, aimed poorly, or intentionally misfired to keep the organs intact, the prisoner had not yet died, but instead lay convulsing on the ground. We were ordered to take him to the ambulance anyway where urologists Wang Zhifu, Zhao Qingling and Liu Qiyong extracted

his kidneys quickly and precisely. When they finished, the prisoner was still breathing and his heart continued to beat. The execution commander asked if they might fire a second shot to finish him off, to which the county court staff replied, "Save that shot. With both kidneys out, there is no way he can survive." The urologists rushed back to the hospital with the kidneys, the county staff and executioner left the scene, and eventually the paramilitary policemen disappeared as well. We burn surgeons remained inside the ambulance to harvest the skin. We could hear people outside the ambulance, and fearing it was the victim's family who might force their way inside, we left our job half-done, and the half-dead corpse was thrown in a plastic bag onto the flatbed of the crematorium truck. As we left in the ambulance, we were pelted by stones from behind.

After this incident, I have had horrible, reoccurring nightmares. I have participated in a practice that serves the regime's political and economic goals far more than it benefits the patients. I have worked at execution sites over a dozen times, and have taken the skin from over one hundred prisoners in crematoriums. Whatever impact I have made in the lives of burn victims and transplant patients does not excuse the unethical and immoral manner of extracting organs.

I resolved to no longer participate in the organ business, and my wife supported my decision. I submitted a written report requesting reassignment to another job. This request was flatly denied on the grounds that no other job matched my skills. I began to refuse to take part in outings to execution sites and crematoriums, to which the hospital responded by blaming and criticizing me for my refusals. I was forced to submit a pledge that I would never expose their practices of procuring organs and the process by which the organs and skin were preserved and sold for huge profits. They threatened me with severe consequences, and began to train my replacement. Until the day I left China in the spring of 2000, they were still harvesting organs from execution sites.

I hereby expose all these terrible things to the light in the hope that this will help to put an end to this evil practice.

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Chairman CRANE. Thank you. Ms. Pelosi.

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

Ms. PELOSI. Thank you very much Mr. Chairman, Ranking Member Levin, members of the Committee. Thanks for the opportunity once again to talk to you about permanent normal trade relations with China. Mr. Chairman, really in light of last year's passage of the PNTR with China bill, I had hoped that we would not have to proceed with this year's debate. Last year's vote was based on promises, not performances, however. So here we are again.

As you know, we have been coming here year in and year out over the past dozen years. We have raised concerns about the human rights situation in China, China's proliferation of weapons of mass destruction and lack of market access and other trade violations that China was committing vis-a-vis the U.S. We were right. Twelve years have gone by. The human rights situation is worse, and China continues to occupy Tibet, arrest people for their religious and political beliefs, and the list goes on and on. Now it includes arresting Americans, American citizens, and legal residents.

But you mentioned, Mr. Levin, and I believe the Chairman did as well, that the passage of the permanent normal trade relations would help expedite China's entry into the WTO. That was the hope that we all had. We don't want to be proven wrong on that, that this is going to go on and on and on for a number of years before China honors its bilateral commitments and does accede to the WTO.

When we started the MFN debate following the 1989 Tiananmen Square massacre, the reported U.S. deficit for China—that was 1989, but they were reporting the 1988 deficit—it was \$2 billion a year. In 2000 the trade deficit with China was \$83.8 billion, up from \$68.7 billion from 1999. According to the Congressional Research Service, the projected U.S. trade deficit with China for 2000 will be \$100 billion. We have gone from a deficit of \$2 billion a year to \$2 billion a week. Something is wrong with this picture. This policy is not working, just on the basis of trade alone, if you can forget all that Mr. Wolf described in terms of human rights violations, and the proliferation of weapons of mass destruction.

Again, when we started the MFN debate following Tiananmen Square, we were told that trade would improve human rights. Again, the news is bad. According to the State Department's 2000 Country Report on Human Rights, and Mr. Wolf quoted it, so I will just reference that the government has intensified crackdowns on religion and in Tibet, intensified its harsh treatment of political dissent and suppressed any person or group perceived to threaten the government.

The rest I will submit for the record. Tragically, each year this report has essentially documented a continuing deterioration of human rights in China. But every political dissident is either in jail or in exile. Indeed, trade has not improved human rights in China.

When, again, we started the MFN debate after Tiananmen Square, another issue of concern was China's proliferation of weapons of mass destruction. Again, the news is bad, as China has continued to proliferate dangerous weapons of mass destruction to unsafeguarded nations, countries of concern and rogue States, including Pakistan, North Korea, Iran, Iraq, Syria and Libya.

We are having this debate again this year because what we have seen for the past year is a continuation of China's pattern in bilateral and multilateral trade agreements; signing trade agreements and not abiding by them, or removing one set of barriers while erecting another one. Either way the results are the same. No good news.

The most serious stumbling blocks—and I want to just focus now on the trade issues—the most serious stumbling blocks have been negotiations over agricultural provisions and the Chinese government's insistence that it be treated as a developing country for WTO's purposes, despite the fact that we have been told that China was to enter the WTO as a developed country and the fact that China is the world's 10th largest economy.

I point out agriculture because those were the promises made to so many members, that this was going to open so many markets for U.S. agricultural products. The status of agriculture is of great concern. The U.S. and China on April 10th, 1999 signed the agreement on U.S.-China Agricultural Cooperation to eliminate Chinese barriers to imports of U.S. citrus, meat, poultry, wheat and other grains. The agreement was cited regularly during the PNTR debate as evidence that a new page had been turned in U.S.-China trade.

However, according to the Bush administration, this Bush administration's 2001 Trade Policy Agenda and 2000 Annual Report, "China's compliance with this agreement has been inconsistent and U.S. exporters still do not have the access envisioned in this agree-

ment.” The report notes a number of problems, including the implementation of new barriers to poultry imports, the imposition of other WTO-inconsistent restrictions, and measures designed to replace other restrictions removed in connection with our bilateral agreement and WTO negotiations.

I will submit more on that for the record, but I would also like to submit the whole agricultural section of the 2001 Trade Policy Agenda and Report for the record.

Chairman CRANE. Without objection so ordered.

[The report is being retained in the Committee files.]

Ms. PELOSI. Thank you, Mr. Chairman. And I would hope that the members of this Committee, if you have not yet read the China section of the administration’s 2001 National Trade Estimate Report on Foreign Trade Barriers, I urge you to do so. The 27 pages on China describe a full range of challenges confronting U.S. goods and services seeking to enter China, such as the installation of new or worsened trade barriers.

Our intellectual property is supposed to be our competitive advantage, but we must confront the fact that the U.S. economy has lost over \$15 billion to Chinese piracy since 1995 alone, according to the International Intellectual Property Alliance (IIPA). The IIPA 2001 Special 301 Report documents that piracy rates in China continue to hover at the 90 percent level, reports on an alarming increase in the production of pirate optical media products including DVDs by licensed as well as underground CD plants. More for the record, but I will conclude that section by saying that the report says China has fallen behind in implementing the State Council’s 1999 software legalization decree with respect to uses of unauthorized copies of software in government enterprises and business and ministries.

Last year, Congress voted PNTR for China. I hoped, again as I said earlier, that we would not have this NTR debate again. In fact, Mr. Rohrabacher and I were working with Mr. Matsui in the hopes that we would not have to even come to this. However, all that changed with the detention of the U.S. crew and the arrest of at least six American citizens or legal residents. While some in the United States may want to look the other way on China’s human rights abuses and proliferation violations, how much longer can we on the Trade Committee look the other way or ignore China’s violations of trade agreements?

We should use this debate this year—as Mr. Levin had said earlier, this is an opportunity. We should use this debate to focus on why China has not yet acceded to the WTO and how many more years we will have to continue to have this debate until the Chinese government honors its trade agreements. We owe that to the American people and especially those who wish to export to China.

I don’t know how many more people have to be repressed, or how many more years China will have to brutally occupy Tibet, or how many more people will be persecuted for their religious and political beliefs, or how many more Americans will have to be arrested in China to get the attention of the Committee, but I hope it won’t be too many more.

Thank you again, Mr. Chairman, Mr. Levin, members of the Committee, for the opportunity to present my views, and I am sub-

mitting that for the record. Thank you for receiving it. Don't forget to read this book. Thank you very much, Mr. Chairman.

Chairman CRANE. Thank you. And one consolation with regard to the annual renewal, as I think the concessions made at the most recent negotiations in the agriculture area will mean that this is our last time to have to go through it.

Ms. PELOSI. I hope so.

[The prepared statement of Ms. Pelosi follows:]

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

In light of last year's passage of Permanent Normal Trade Relations with China, I had hoped that we would not have to proceed with this year's debate. Last year's vote was based on promises, not performance, so here we are again.

As you know, over the past dozen years, my colleagues and I have appeared before this Committee to discuss many facets of the U.S.-China relationship—trade, proliferation and human rights. We cannot be encouraged by the results of the decisions this Congress has made.

When we started the MFN debate following the 1989 Tiananmen Square massacre, the reported U.S. trade deficit with China for 1988 was around \$2 BILLION. In 2000, the United States trade deficit with China was \$83.8 BILLION, up from \$68.7 BILLION in 1999. According to the Congressional Research Service, the projected U.S. trade deficit with China for 2000 will be \$100 BILLION. We have gone from a deficit of \$2 BILLION per year to a deficit of \$2 BILLION per week.

When we started the MFN debate following Tiananmen Square, we were told that trade would improve human rights. Again, the news is bad. According to the U.S. State Department's 2000 Country Reports on Human Rights Practices regarding China issued this year, "The Government's poor human rights record worsened, and it continued to commit numerous human rights abuses. The Government intensified crackdowns on religion and in Tibet, intensified its harsh treatment of political dissent, and suppressed any person or group perceived to threaten the Government." Tragically, each year this report has essentially documented a continuing deterioration of human rights in China. Every political dissident is either in jail or in exile.

When we started the MFN debate after Tiananmen Square, another issue of concern was China's proliferation of weapons of mass destruction. Again the news is bad, as China has continued to proliferate dangerous weapons of mass destruction to unsafeguarded nations, countries of concern, and rogue states, including Pakistan, North Korea, Iran, Iraq, Syria and Libya.

We are having the debate again this year, because what we have seen for the past year is a continuation of China's pattern in bilateral and multilateral agreements: signing trade agreements and not abiding by them, or removing one set of barriers while erecting another one. Either way, the results are the same.

The most serious stumbling blocks have been negotiations over agriculture provisions and the Chinese government's insistence that it be treated as a developing country for WTO purposes, despite the fact that we had been told that China was to enter the WTO as a developed country, and the fact that China is the world's tenth largest economy.

The status of agriculture is of great concern. The United States and China, on April 10, 1999, signed the Agreement on U.S.-China Agricultural Cooperation to eliminate Chinese barriers to imports of U.S. citrus, meat and poultry, wheat and other grains. This agreement was cited regularly during the PNTR debate as evidence that a new page had been turned in U.S.-China trade. However, according to the Bush Administration's "2001 Trade Policy Agenda and 2000 Annual Report," "China's compliance with this agreement has been inconsistent and U.S. exporters still do not have the access envisioned in this agreement."

The report notes a number of problems, including the implementation of new barriers to poultry imports, the imposition of "other WTO-inconsistent restrictions" and measures "designed to replace other restrictions removed in connection with our bilateral agreement and the WTO accession negotiations." China agreed to remove phytosanitary barriers to wheat and other grains from the Pacific Northwest beginning April 1999. According to the report, "less than 100,000 metric tons of grain have been shipped to China, and most of it has been stopped at the border due to new internal measures calling for special processing of U.S. grains." Similar problems exist for varieties of apples, plums, potatoes and pears. I would like to submit

for the record the section from the “2001 Trade Policy Agenda” describing on-going implementation problems in Agriculture.

If the members of this Subcommittee have not yet read the China section of the Administration’s 2001 National Trade Estimate Report on Foreign Trade Barriers, I urge you to do so. The 27 pages on China describe a full range of challenges confronting U.S. goods and services seeking to enter China, such as the installation of “new or worsened trade barriers.” Examples of special concern include: cosmetic testing and registration requirements, educational testing services, chain store regulations, restrictions on the import of chicken meat, implementation of agreements on TCK in wheat and barley, and the registration of internet content providers. This report documents problems being faced by a very wide range of U.S. products and services, from motor vehicles to wine and spirits, from potato flakes to high technology, from grapes to insurance.

Our intellectual property is our competitive advantage, but we must confront the fact that the U.S. economy has lost over \$15 BILLION due to Chinese piracy of our intellectual property since 1995 alone, according to the International Intellectual Property Alliance (IIPA). The IIPA’s 2001 Special 301 report documents that “piracy rates in China continue to hover at the 90% level,” reports on an “alarming increase in the production of pirate optical media products including DVDs by *licensed* as well as underground CD plants,” and expresses concern about the “increasing sophistication in the pirate market including ... growing Internet piracy ... growing production of higher quality counterfeit products ... the still rampant piracy of computer software by business enterprises,” and that “China has fallen behind in implementing the State Council’s (1999) software legalization decree ... *with respect to uses of unauthorized copies of software in government enterprises and ministries.*” (emphasis added)

Last year, Congress voted for Permanent Normal Trade Relations for China. I had hoped that we would not have to debate annual NTR again this year. Indeed, we were working toward a plan to avoid this debate. However, that all changed with the detention of the U.S. crew and the arrest of at least six American citizens or legal residents. While some in the United States might want to look the other way on China’s human rights abuses and proliferation violations, how much longer can we ignore China’s violations of trade agreements? We should use this debate to focus on why China has not yet acceded to the WTO and how many more years we will have to have this debate until the Chinese government honors its trade agreements. We owe that to the American people.

[The attachment is being retained in the Committee files.]

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Chairman CRANE. And with that, Mr. Rohrabacher.

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

Mr. ROHRABACHER. Thank you, Mr. Chairman. As we discuss this issue, I think we all should think about what happened just a few months ago. A few months ago, this very same government that we are now suggesting should have normal trade relations like any other government, forced an American aircraft out of the sky in an attempt to murder the 24 military crew members—but they survived. And then those 24 military crew members were held hostage for 11 days.

You know, this is the government that we want to have normal trade relations with? This is an insult to the American people, it is an insult to our standards, and it is especially a slap in the face to those people in our military who we expect to defend us against this monstrous threat. And it is a monstrous threat.

Communist China is America’s most potential adversary and enemy in the future. We all know that. Nobody is saying it, but we all know that. This is like—we mentioned Nazi Germany before and the things that were leading up to the war in Nazi Germany.

IBM and a lot of other major corporations were making a lot of money dealing with Nazi Germany. They, too, were major human rights abusers, but our trade was going to make it better. Let's give the Nazis the Olympics, for example.

There are a lot of historic parallels here, and I know a lot of people, after we found out what Nazi Germany was all about and after we suffered because of the consequences of the West's absolute indefensible strategy against the Nazis, what happened? There was a lot of people who sort of brushed that aside. Well, no, we made some very serious errors in our dealing with tyrannical threats to America and to the West in the twenties and thirties and it led to World War II.

We are making those same mistakes right now with Communist China. We should not be treating Communist China the same way we treat our democratic friends. I believe in free trade, but free trade between free people. If we extend normal trade relations to a regime like exists in Beijing, they would look at that as a sign of weakness.

And what are they doing with that \$80 billion surplus that we are permitting them to have? You know, we are setting up the rules here. What are they doing with the \$80 billion that they make off the trade surplus of the United States? Well, they are beefing up their military so it makes them easier to knock American military aircraft out of the sky and to intimidate the United States military and to hold our people hostage. Is that what we want? And by the way, this isn't about free trade. This isn't about free trade with China at all.

What does normal trade relations really mean when it comes to what we are discussing today? What it means is that China is eligible for subsidies from the Import-Export Bank. What we are talking about today isn't free trade or capitalism. What it is talking about is making the American taxpayer eligible to subsidize to the Export-Import Bank through subsidized interest rates on the loans, or actually subsidizing guaranteed loans to companies who want to close up in the United States and set up factories in this military dictatorship in order to use and exploit the slave labor in China.

Is that what we want? Is that what the American people want? We want to encourage, we want to subsidize American business to go into a Communist dictatorship and set up their businesses there, to exploit the slave labor there? I don't think so. I don't think that is moral, I don't think it is leading America in the right direction strategically, and it is indefensible.

All along we have been told if we do this just a little bit more, let's subsidize our big businessmen to set up their factories in China through the Export-Import Bank, and you know what will happen? Once they have more economic interaction with us, it is going to liberalize their country. It is not liberalizing their country at all. As we speak, they are murdering members of the Falun Gong, which is nothing more than a little religious cult that believes in yoga and meditation, and they are murdering these people. There was a report that 10 more of them died in captivity, some of them women, after they were tortured by the government of Communist China.



No, it is not getting any better in China. It is getting worse in the United States. Our immoral relationship with this Communist dictatorship is lowering our standards. It is not raising their standards. We now just shrug our shoulders. We let them get away with shooting down our airplanes or holding our people hostage. We let them get away with these things. Why? Why, because there are some people in this country who are making a lot of money, that are billionaires who are making money by exploiting the slave labor in China. And what is worse, this bill that we are talking about will permit those billionaires to get government guaranteed loans to set up their factories there. That is what this is all about. And it is a shameful thing, and it was a shameful thing when that happened with the Nazis in the thirties, and I can assure you when the historic record is clear, there are going to be many Americans who are ashamed of this policy as well.

We need to stand up for what our Founding Fathers meant America to stand up for. We are not a country of people just coming here to make a fast buck. We are here to stand for freedom and justice, with liberty and justice for all. And not only do the Chinese persecute their own people, but right now they have a number of American citizens, who are legal residents from our country, under their control and being held hostage. How can we even seriously consider giving normal trade relations to a country that is holding our own people hostage like that?

I cannot more emphatically say this should be denied, and I am very proud to be the author of the denial of the President's request to extend the Jackson-Vanik provision on trade of the Trade Act of 1974. Communist China is not a country that deserves this. Thank you very much.

Chairman CRANE. Thank you, Mr. Rohrabacher.

[The prepared statement of Mr. Rohrabacher follows:]

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

I have introduced House Joint Resolution 50, a resolution disapproving the extension of the President's waiver on the "Jackson-Vanik" provision in the Trade Act of 1974. My reason for this resolution is a matter of national security as well as massive violations of human rights by an emerging superpower. During the past twelve months, despite previous Presidential waivers, the communist Chinese have used their \$80 billion annual trade surplus with the United States to further modernize its military and boost its nuclear force targeting America and our friends in Taiwan, Japan and India. In addition to intensified campaigns to crack-down on religious believers independent of state controlled organizations, freedoms of press and speech have been thoroughly suppressed.

The sad reality is that increased Western investment and U.S. taxpayer subsidized transfers of U.S. industries for near-slave labor conditions in Communist China has only strengthened the grip of the Beijing despots and corrupt "princelings" who dominate the state-controlled economy. Rather than changing China, it is America that has changed our owned standards in support of freedom and against arming potential nuclear-armed adversaries. I believe in free trade—among free people, and not subsidizing American corporations to invest in lawless one-party states where it is a prisonable offense to make public economic statistics and where private U.S. banks and insurance companies won't back loans.

Despite negotiations over entry to the World Trade Organizations and their bidding to host the 2008 Olympic games, last week Beijing sent home in pieces the U.S. military aircraft that they forced down from international airspace and demanded \$1 million from our government for the cost of their unlawfully detaining the U.S. air crew. The pugnacious Beijing bullies have no fear that this august body will reconsider our illogical subsidies and massive investment into their despotic regime.

This week our media revealed shocking news of at least ten more Falun Gong mediators, including women, perishing in a prison labor camp after severe torture. Jiang Zemin has again threatened military conquest of democratic Taiwan.

On July 8, a Washington Post editorial stated: "Beijing appears prepared to press on with repression even while demanding that the world accept it as an Olympic host and World Trade Organization member. The list of offenses grows ... a larger crackdown on free thought has included the shutting down of Internet cafes and independent-minded newspapers and arresting dissidents. There is the continuing campaign against religion. ... There is the massive use of the death penalty. Amnesty International says more people have been executed in China during the past three months—1,781—than in all the rest of the world during the past three years." And there was compelling testimony recently in this House by witnesses of the macabre business practice of Chinese officials harvesting the organs of freshly executed prisoners. After World War II, most American leaders said "never again" would we ignore Nazi-style tactics by any regime on this planet. How soon some people forget the tragic lessons of recent history.

Mr. Chairman, I request permission to enter into the record the copy of the cover story of the July 9, 2001 New Republic magazine, titled "Why Trade Won't Bring Democracy to China," by Lawrence F. Kaplan. I urge my colleagues to read this devastating historical and contemporary study of how our trade and subsidy policies have strengthened the brutal Beijing regime without bringing about any substantial democratic reforms or temperance of their systematic human rights abuses.

I urge my colleagues to stand up for American values and international freedom by supporting House Joint Resolution 50.

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Chairman CRANE. Mr. Brown.

**STATEMENT OF THE HON. SHERROD BROWN, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Mr. BROWN. Thank you, Mr. Chairman, for the opportunity to join you today. Thank you, Mr. Levin, the Ranking Member.

We as a nation ignore the abuse of human rights in China when we devalue the principles on which our democracy is built. Based upon his first 6 months in office, President Bush has yet to make this connection.

As we seek to encourage democracy throughout the world, we should not create a double standard by overlooking human rights violations and ignoring efforts toward peace. Each year, as Mr. Wolf and Ms. Pelosi pointed out, China's human rights record gets worse. The State Department's recent human rights report cites crackdowns by China on freedom of speech, on freedom of belief, on freedom of association. And the Hainan incident in March further demonstrated the aggressive posture China has chosen to take with the U.S. and with the international community.

Since 1994 when human rights were delinked from the requirements of MFN, China's tolerance for individual freedom has deteriorated severely. Yet our response has been to reward China by importing more goods and by passing permanent normal trade relations. Last month, President Bush asked Congress to extend China's MFN status. This step allows the world's most notorious human rights abuser to maintain its strong trade advantage over our country.

As China's human rights practices spiral downward, the U.S. trade deficit with this country is exploding upward. During the weeks approaching the vote for PNTR for the People's Republic of China, corporate chief executive officers in our country flocked to Capitol Hill to lobby for increased trade with China. They talked

incessantly about access to 1.2 billion Chinese consumers. But their real interest, as we see, is 1.2 billion Chinese workers. These chief executive officers would tell you that increasing trade with China will encourage and allow human rights to improve. They will tell you that democracy flourishes with increased free trade, but there is no evidence of that.

In fact, as the last decade has shown, democratic nations in the developing world such as India are losing out to more totalitarian governments such as China, where people are not free and the workers do as they are told. In 1989, of U.S. exports from developing countries, 54 percent of those exports to the U.S. from developing countries came from developing democracies. Ten years later, only 35 percent came from developing democracies. Among manufactured goods in 1989, 57 percent of manufactured goods coming from developing countries, 57 percent came from developing democracies. Ten years later, only 35 percent came from developing democracies.

As U.S. business leaders tell us that they prefer democracy, Western investment, clearly the evidence shows, prefers totalitarianism. They choose China and Indonesia and Burma over Taiwan and India and South Korea. Corporate America wants to do business with countries with docile workforces that earn below-poverty wages and are not allowed to bargain collectively. Western corporations want to invest in countries that have below-poverty wages, poor environmental standards, no worker benefits, and no opportunities to bargain collectively.

As developing nations make progress toward democracy, doing what we hope they do as they increase worker rights and create regulations to protect the environment, the business community, the Western business community, the American business community, punishes them by pulling its trade and investment in favor of other totalitarian governments.

In China's case, decisions about the economy are made by three groups: the Chinese Communist Party; the People's Liberation Army, which controls a significant amount of the businesses and export to the U.S.; and, third, Western investors.

Which of these three wants to empower workers? Does the Chinese Communist Party want the Chinese people to enjoy increased human rights? I don't think so. Does the People's Liberation Army want to close the labor camps? I don't think so. Do Western investors want Chinese workers to bargain collectively? I don't think so. None of these groups has any interest in changing the current situation in China. The People's Liberation Army, the Chinese Communist Party, and Western investors, all three profit too much from the status quo to want to see human rights and labor rights improve in the People's Republic of China.

Congress should not tolerate the working conditions that exist in Chinese factories. Congress should care about how American corporations are behaving outside the borders of the United States. For all of President Bush's military posturing over the Taiwan Strait, he has chosen not to address the blatant violations of human rights within the People's Republic of China. We must, as Mr. Rohrabacher said, do more than call upon the People's Repub-

lic of China to end its human rights abuses. We must demand it of them.

I thank the Chairman.

Chairman CRANE. Thank you, Mr. Brown.

Mr. Blumenauer.

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

Mr. BLUMENAUER. Thank you, Mr. Chairman. I appreciate the opportunity to join with you. I appreciate the leadership that you and Ranking Member Levin and the members have taken in this important area.

Last year, Congress overwhelmingly made a difficult decision that we were going to follow the path of engagement with the Chinese by voting to approve China's admission to the WTO and extending permanent normal trade relations. In so doing, the majority of Congress and the leaders of both parties aligned themselves with the forces of change and reform in China. I have in my formal statement statistics about the impact that this trade has for my State and for the country.

But economics are only part of the issue. Just because Chinese accession has taken longer than we anticipated, we are back again for the need for the last annual extension; and we need to focus on the big picture as we continue the roller coaster relationship, although nothing fundamentally has changed.

China continues to be ruled at the top by party and military leaders who are threatened by China's engagement with the United States and the broader world. These leaders fear the restructuring of the Chinese economy and the resulting social, economic, and communications changes that would weaken their grip on the Chinese population. The distance that China has traveled from the butchery and starvation of the Great Leap Forward, and the chaos of the Cultural Revolution is significant.

Yet my colleagues are correct. There are serious problems. China's human rights record is atrocious, and we need to continue to shine the light on the behavior of the Chinese, and engagement with the WTO provides us with an excellent vehicle to do so.

These forces of repression fear further penetration of the Chinese market by foreign economic powers, especially the United States. Tearing down economic barriers that would permit us to trade effectively could have a destabilizing effect on the repressive regime, and our failure to move forward would play on the other forces that are strengthening a new generation of entrepreneurial spirit, provincial and municipal leadership, and new business partnerships.

I think a classic example happened earlier this year when there was the explosion we are all familiar with in the fireworks factory where young children were being forced to assemble firecrackers, as young as third- and fourth-graders in a school. The official Chinese line was that some mad bomber had come into the school and detonated this explosion, but within hours the truth was out through the magic of e-mail. The Chinese Premier was forced to acknowledge that it was an accident at a school-based factory that employed child labor to build fireworks.

I think this is symptomatic of the forces of change that are at work in that country.

Failure for us to renew our normal trading relations would be a serious mistake. For us to reverse course now would have an extraordinarily destabilizing effect on our relationship with China, and economics would be the least of our worries at a time when we are attempting to reduce the tension between the two countries. It would be a gratuitous and unfortunate escalation of pressures on our side which would frustrate, perhaps infuriate the Chinese, confound our allies, and delight our business competitors.

History suggests it will not have the impact desired by opponents of normal relations with China. It is ironic at a time when we are now inching toward acknowledging our policy of attempting to isolate a much smaller country, Cuba, has been failure. It has only harmed the Cuban people, prolonged the life of the Cuban dictatorship. Had we opened our borders to commerce and interaction, Castro would certainly be less powerful and probably be a thing of the past.

Well, my interest in Congress is promoting livable communities around the United States and around the world. Engagement with China ranks very high on the list of opportunities. If 1.3 billion Chinese develop in patterns like the United States—energy demands, air pollution, disruption of oceans and waterways—the impacts will be devastating. Opportunities through trade and engagement give us a chance to build on a better future.

It is true we have just concluded a difficult period surrounding the incident with the Chinese fighter and the American surveillance plane. I have a slightly different view of that than expounded by my friend from California. But imagine for a moment if the roles had been reversed and it was the Chinese spy plane that was forced to land at military facilities in Anacortes, Washington after spying off the West Coast of the United States. I think we need to take a step back.

China, with all due respect, is not Nazi Germany. We are not at risk from China now in terms of military aggression. We are going to be overwhelmingly more powerful than China 10 years from now, but we can influence the future and the nature of that relationship.

China's behavior does continue to be troubling. The potential is great that frustrations may even escalate in the near term. But we are going to have to be aggressive in our negotiations, vigilant for human rights, the environment, and trade compliance. With China engaged in the WTO, we will have more tools and more allies in the struggle, and I think we are going to get the results that we want much sooner.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Blumenauer follows:]

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

Thank you, Mr. Chairman and members of the Committee for providing me with the opportunity to testify on this important issue. Last year Congress overwhelmingly made a difficult decision that we were following path of engagement with the Chinese by voting to approve China's admission to the WTO and extending Permanent Normal Trade Relations. In so doing, the majority of Congress and the leaders

of both political parties aligned themselves with the forces of change and reform in China.

Oregon has seen its aggregate exports to China grow from \$56 million in 1993 to \$216 million in 1999, according to Department of Commerce trade statistics, a percentage increase of 289%. Almost 10% of all jobs in the State of Oregon are in some way related to the export of manufactured goods (*to the World*), making Oregon the tenth most export dependent state in the country. It's easy to understand how important the growing Chinese market is economically to me, my constituents in Portland, and Oregon as a whole.

Just because Chinese ascension to WTO has taken longer than we anticipated, we are back again with the need to do the last annual extension. We continue the roller coaster relationship although nothing has fundamentally changed. China continues to be ruled at the top by party and military leaders who are threatened by China's engagement with the United States and the broader world. These leaders fear the restructuring of the Chinese economy and the resulting social, economic, and communication changes that would weaken their grip on the vast Chinese population.

The distance that China has traveled from the butchery and starvation of the Great Leap Forward to today is almost unfathomable. I would note it was a Republican President preaching engagement, Richard Nixon, which in many ways allowed us to take this step forward. Its important we give our new President the same opportunity.

China's Human Rights record is atrocious, and we need to continue to shine a light on the behavior of the Chinese, and engagement through the WTO provides us with an excellent vehicle to do so. Further penetration of the Chinese market by foreign economic powers, especially the United States, tearing down economic barriers that would permit us to trade effectively would have a destabilizing effect on the repressive regime and would play to the other forces of change that are strengthening the new regeneration of entrepreneurial spirit, provincial and municipal leadership, and new business partnerships.

The classic example happened earlier this year where there was an explosion at a fireworks factory where children were being forced to assemble firecrackers as young as 3rd and 4th graders in this school. The official Chinese line was that a suicide bomber had entered a fireworks factory and detonated an explosion. Within days, due to the work of the domestic Chinese internet media, the Chinese Premier was forced to acknowledge that the "Factory" was in reality a school which employed child labor to build fireworks. Through modern communications the reality was out instantly all across China and the truth triumphed.

This is just an example of how reform is happening daily, in dozens, hundreds of examples on a smaller scale that illustrate the point. It's not going to be easy. It's not going to be quick. But we can use the leverage of WTO membership to accelerate the progress and hasten the day when the Chinese enjoy the liberties that we too often take for granted.

Failure to renew would be at this point a serious mistake. First because we have already made that determination and established a policy on it. For us to reverse course now would have an extraordinarily destabilizing effect on our relationship with China and economics would be the least of our worries, at a time when we are attempting to reduce tensions between the two countries. This would be a gratuitous and unfortunate escalation of pressures on our side, which would frustrate, infuriate the Chinese. It would confuse our allies and delight our business competitors.

History suggests it will not have the impact desired by opponents of normal relations with China. If going through this annual process has had no impact according to our opponents, why is going to make a difference now?

It's particularly ironic at a time when we are now inching towards acknowledging our policy of attempting to isolate a much smaller country, Cuba, has been a failure. It's only harmed the Cuban people and prolonged the life of the Cuban dictatorship. Had we opened our borders, engaged in commerce and interaction, Castro would certainly be less powerful, and probably a thing of the past.

My interest in Congress is promoting livable communities around the United States and around the world. Engagement with China ranks very high on the list of opportunities. If 1.3 billion Chinese develop in patterns like the United States: energy demands, air pollution, disruptions of oceans and waterways, the impacts will be devastating.

There are tremendous opportunities for economic, cultural, and scientific and governmental exchange to bring about a different future. For instance, this summer we are having two groups of Chinese municipal planners come to Portland, OR where they will meet with municipal officials and members of the community to discuss

ways of improving quality of life in a sustainable fashion, a prospect that excites both parties.

We have just concluded a difficult period surrounding incident with the Chinese fighter and the American surveillance plane. (Imagine if the roles had been reversed and it was a Chinese spy plane that was forced to land at the military facilities in Anacortes, Washington after spying off the West Coast of the United States. Imagine if the Chinese had bombed our embassy in Belgrade.) Its time to get on with this difficult past.

China's behavior continues to be troubling, the potential is great that the frustrations may even escalate in the near term. Having China in the WTO is not going to solve all our problems. We are still going to have to be aggressive in our negotiations, vigilant for human rights, the environment, and trade compliance. With China in the WTO we will have more tools and more allies in this struggle.

I would cite one final example of the importance of engagement in the Marshall plan. The Marshall plan, which contemporary historians call the "defining moment of the Cold War," poured over \$100 billion in inflation adjusted dollars into Europe over three years into 16 Western European nations. These nation's form the basic core of the developed, democratized world. Stalin rejected the offer of President Truman's and General Marshall's assistance, because he knew the engagement would bring down his totalitarian regime. The nation's of the Iron Curtain remain mired in poverty, corruption, and lack of basic, fundamental human rights that plague them to this day.

I strongly recommend this committee exercise its leadership with a bold and comprehensive report and the recommendation to support the President's determination to extend to China another year of Normal Trade Relations.

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Chairman CRANE. Thank you very much. Thank you Mr. Blumenauer. And now I would like to yield to our Ranking Minority Member, Mr. Levin.

Mr. LEVIN. Mr. Chairman, I think I will forego questions partly out of consideration of the time factors of our five colleagues and also other panels. But I do want to say just two things if I might. Number one, to Dana. I don't think one has to agree with an analogy to Nazi Germany to be deeply concerned about human rights and related issues in China. I think we have to be wary of facile historical analogies, but there can be many societies short, and even far short of where Nazi Germany was, for there to be concern on our part about freedoms. And I think China very much fits into that category.

And second, I would hope that as you leave, as you will in a few minutes, that no one who is listening in will mistake what is being undertaken here and what is being said here. There may be, and there are, some differences as to how to proceed, but I don't think anybody should be mistaken in thinking that there isn't a deep concern within this Congress about the path that China has been following in terms of basic human rights.

I, for one, don't think there is a one-to-one equation, economic freedom and other freedoms or free economic markets and other freedoms. History has shown that there is no magic connection between the two.

But while there may be some disagreement as to how you proceed, I think there is less disagreement than some people think in this Congress about the importance of the issue and the role that the United States intends to play, surely this Congress, in terms of pressuring for China to follow the path not only of a free economic market but true freedoms all around.

And so while this may be the last annual vote, it isn't going to be the last debate. The commission that was referred to hopefully will be one of the vehicles; but I think in addition, there will be others, including reports to this Congress and discussions within this Congress about these issues.

So we will have a vote this time, and I think Mr. Rohrabacher's proposal will be defeated. But I think the effort to promote China on the path of freedom will not be defeated. I think that is going to very much continue to be a part of the fabric of this institution.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you. And with that, let me express appreciation to all of our colleagues, even though we may have disagreements.

Mr. ROHRABACHER. Mr. Chairman, may I answer the question that was posed?

Chairman CRANE. If the gentleman wants to respond.

Mr. ROHRABACHER. I would agree with my friend that Nazi Germany may not be the best comparison, although there are many other areas of comparison there with the Olympics and the human rights abuses that were going on in the 1930s. But I think there is certainly a comparison with imperial Japan, who was also a major human rights abuser in the twenties and thirties, and was an expansionary power and was a militaristic power in an economic relationship with the United States. And I am not saying that war is inevitable with the Chinese Communists, because that is not the case, but our policies in the 1930s with imperial Japan did not lead to peace, and I just think there is a comparison there.

Mr. LEVIN. Okay. Thank you.

Chairman CRANE. Thank you. And with that, I again express appreciation, and we look forward to working with you folks in the future.

I would now like to welcome as our next witness Mr. Jeffrey Bader who is the new Assistant U.S. Trade Representative for China, Hong Kong, Mongolia, and Taiwan. And Mr. Bader, we again would like to urge you to try and keep all testimony as close as possible to around 5 minutes, and all written testimony, though, will be made a part of the permanent record. And with that, you may proceed.

**STATEMENT OF JEFFREY A. BADER, ASSISTANT UNITED STATES TRADE REPRESENTATIVE FOR CHINA, HONG KONG, MONGOLIA, AND TAIWAN, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE**

Mr. BADER. Thank you, Mr. Chairman. I will indeed excerpt my statement and submit the full statement for the record.

Mr. Chairman, I am pleased to appear before this Subcommittee today to discuss the benefits to the United States of renewing normal trade relations status with the People's Republic of China. China's NTR status has wider implications than merely the U.S.-China relationship, as important as that is. My colleagues from the Departments of State and Commerce will discuss with this and other Committees why the granting of normal trade relations status is in the broad U.S. national interest. My testimony will focus on the ongoing negotiations on China's accession into the World



Trade Organization and the interplay between that issue and NTR status.

Once China accedes to the WTO, pursuant to last year's legislation, permanent NTR status will become effective for China provided the President sends the required certification to the Congress. This will obviate the need for Jackson-Vanik waiver, annual renewal, and this annual debate. Thus, there is a statutory linkage between NTR status for China and its accession to the WTO.

More broadly, China's accession to the WTO will be a major and direct step forward in advancing some of the objectives that underlie our annual debate on NTR, assuring significantly greater market access for U.S. business, farmers, and ranchers to China's large and expanding market and encouraging the development of the rule of law in China.

The November 1999 U.S.-China Bilateral Agreement on China's accession to the WTO capped nearly 14 years of intense, often difficult negotiations. It provided us with a set of comprehensive, verifiable and, as you said in your statement, Mr. Chairman, one-way trade concessions that substantially open China's market across the spectrum to U.S. goods, services, and agriculture. I want to acknowledge the tremendous efforts of Ambassador Barshefsky in achieving this result and note the bipartisan support for that agreement and for the steps we have taken since.

This Subcommittee is familiar with the details of our bilateral agreement and there is no need to review them today. My written statement does review them. I will dispense with them today.

In addition to improved market access, China has agreed to change practices that have made it difficult for U.S. companies to do business in China and hindered the developments of China's economy as well. These broad-based reforms include commitments to greater transparency in the operation of China's trade regime. Laws, regulations, and other measures will be published before they are enforced, and interested parties will have an opportunity to comment on the provisions before they are implemented. Administrative actions relating to trade matters will be subject to judicial review. Beijing has been systematically reviewing and revising or abolishing laws and regulations inconsistent with WTO requirements.

The 1999 agreements did not mark the end of China's WTO accession process. Still to be completed was the negotiation of the multilateral documents essential to the accession package—the Protocol of Accession and the Working Party Report. These documents describe how WTO rules will apply to China and how China intends to implement the commitment it is undertaking. It is principally these negotiations that have occupied Ambassador Zoellick and our delegation, first in Shanghai last month and most recently at the Working Party meeting in Geneva last week.

In Shanghai, Ambassador Zoellick negotiated the following improvements in China's accession package:

First, an agreement on agricultural domestic support that limits China's recourse to provisions of the WTO Agreement on Agriculture to levels below that available for developing countries.

Second, a commitment from China to assure that its restrictions on chain stores do not inappropriately restrict the right of American retailers to operate fully owned distribution outlets.

Third, a commitment from China on how it will allow foreign companies, including those from the United States, to export to China on a nondiscriminatory, nondiscretionary basis without burdensome requirements.

And, fourth, several improvements in access to the insurance market of China.

In Geneva this past week, we obtained multilateral endorsements of these achievements. In addition, we achieved international consensus on Working Party provisions on numerous issues crucial to assuring market access and fair trade with China.

Just a few additional points about China's WTO commitments:

First, they are effective immediately upon accession. Most will phase in. Some will be effective on day one. Most will phase in in 3 years, and then virtually in all cases in 5 years.

Second, the agreements are enforceable. We will enforce them through our trade laws, WTO dispute settlement processes, as necessary, and other mechanisms including an annual multilateral review of China's implementation and compliance for 8 years, with an additional review in the 10th year.

Third, the agreement helps ensure that trade with China does not injure U.S. industry and workers. The special antidumping provision we negotiated allows us to use nonmarket economy methodology in judging prices of imports from China for 15 years. The special safeguards provision and the procedures in our PNTR legislation allows the U.S. to act quickly to address rapidly increasing imports from China.

And fourth, the increased transparency and accountability that WTO membership and implementation of WTO rules compel will have a positive effect in other areas. The essence of the WTO is that it is a rules-based system that requires its members in turn to play by the rules, with the openness and transparency in rule-making and rule enforcement I noted earlier.

It appears we are nearing the end game in this accession process. I will be going back to Geneva with my delegation this weekend for another Working Party meeting whose objective will be to produce a completed Protocol of Accession, a Working Party Report with as few unresolved issues as possible, and final consolidated schedules on goods and services. If we are successful, this package will be sent to capitals for review. It is possible that early in the fall, what we hope will be the final Working Party session on China will convene to approve final texts of all these documents.

The full accession package will be reviewed by Ambassador Zoellick and other concerned agencies of the U.S. Government. After that review, the President will decide whether he can certify to the Congress, as required in the PNTR legislation, that the final package is at least equivalent to the bilateral agreement negotiated in 1999. It is our objective to produce a final package that meets that standard.

If the President is able to produce such a certification and if other countries provide similar approvals, WTO members at a meeting of the General Council, or possibly at the WTO Ministerial

meeting at Doha in November, would then approve the terms of China's accession to the WTO.

A final point. We fully expect the WTO to approve Taiwan's accession in the same time frame as China's. As a major player in international trade and a new and thriving democracy, Taiwan deserves membership and a larger role in the international community. We have discussed our expectations on Taiwan's accession thoroughly with all the concerned parties and are confident there is a consensus on this.

If we fail to grant NTR status to China, it is predictable that the WTO accession process I described with its benefits to U.S. business, labor, farmers, and ranchers will grind to a halt.

Without China's accession to the WTO, the benefits of China's commitments in areas such as services and dispute settlements will be unavailable to U.S. companies. All of the tariff and tariff-rate quota concessions will be on hold.

China's accession to WTO will be a benefit to China, of course, but it is not a favor to China. Major beneficiaries will be American companies, workers, and agriculture. It would significantly open the world's most populous country, and arguably the fastest growing economy in the world, to our exporters and service suppliers. Renewal of NTR is an essential step toward this objective.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Bader follows:]

**Statement of Jeffrey A. Bader, Assistant United States Trade Representative for China, Hong Kong, Mongolia, and Taiwan, Office of the United States Trade Representative**

Mr. Chairman, I am pleased to appear before this subcommittee today to discuss the benefits to the United States of renewing Normal Trade Relations (NTR) status for the People's Republic of China.

**Relationship of NTR and China's WTO Accession**

China's NTR status has wider implications than merely the U.S.-China trade relationship, as important as that is. My colleagues from the Departments of State and Commerce will discuss with this and other committees why the granting of Normal Trade Relations status is in the broad U.S. national interest and how it affects our global and regional security concerns, human rights, and religious freedom in China. My testimony will focus on the ongoing negotiations on China's accession into the World Trade Organization (WTO) and the interplay between that issue and NTR status.

Once China accedes to the WTO, pursuant to last year's legislation, permanent Normal Trade Relations status will become effective for China, provided the President sends the required certification to the Congress. This will obviate the need for a Jackson-Vanik waiver, annual renewal, and this annual debate. Thus, there is a statutory linkage between NTR status for China and its accession to the WTO.

More broadly, China's accession to WTO will be a major and direct step forward in advancing some of the objectives that underlie our annual debate on NTR—assuring significantly greater market access for U.S. business, farmers, and ranchers to China's large and expanding market and encouraging the development of the rule of law in China.

**The 1999 U.S.-China Bilateral Agreement**

The November 1999 U.S.-China Bilateral Agreement on China's accession to the WTO capped nearly fourteen years of intense, often difficult negotiations. It provided us with a set of comprehensive, verifiable, one-way trade concessions that substantially open China's market across the spectrum to U.S. goods, services, and agriculture. I want to acknowledge the tremendous efforts of Ambassador Barshesky in achieving this result, and to note the bipartisan support for that Agreement and for the steps we have taken since.

### Market Access

This Subcommittee is familiar with the details of our bilateral agreement and there is no need to review them today. Suffice to say that, *inter alia*, under the 1999 Agreement China will:

- Reduce average tariff levels on goods of interest to the United States from 24% to 7%,
- Phase-out all tariffs on Information Technology Products by 2005,
- Broadly open up its service sectors, such as insurance, banking, securities, telecommunications, express mail, legal, accounting, and computer-related services,
- Permit U.S. companies to operate wholesale, retail, and franchised distribution networks.

In addition, the associated April 1999 U.S.-China Agricultural Cooperation Agreement removed the bans on imports of U.S. citrus and wheat which were not based on sound scientific principles. This Agreement requires China to apply sanitary and phytosanitary measures consistent with sound scientific principles and to accept U.S. certification of meat products. With proper implementation, these requirements will be of particular benefit to U.S. growers of wheat and citrus products previously barred from China and should facilitate export of U.S. beef, pork and poultry products.

Our growers, exporters, and ranchers have begun to take advantage of that opening. They will be able to capitalize on it much more fully once China accedes to the WTO, because the tariff reductions for all products and the new tariff rate quotas for wheat, corn, rice and cotton will only then take effect. U.S. agricultural exports to China, including Hong Kong, reached \$3 billion in 2000. The U.S. Department of Agriculture estimates that China's membership in the WTO could result in \$2 billion annually in additional U.S. agricultural exports by 2005.

### Systemic Reforms

In addition to improved market access, China has agreed to change practices that have made it difficult for U.S. companies to do business in China and hindered the development of China's economy. These broad-based reforms include commitments to greater transparency in the operation of China's trade regime. Laws, regulations and other measures will be published before they are enforced and interested parties will have an opportunity to comment on these provisions before they are implemented. Administrative actions relating to trade matters will be subject to judicial review and China has agreed that the practices of all levels of government will comply with WTO requirements.

China's membership in the WTO also requires compliance with international rules important in the day-by-day world of international trade. China has already begun the process of revising numerous laws and regulations on matters ranging from customs valuation and issuing import licenses to new patent and copyright laws. Beijing has been systematically reviewing and revising or abolishing laws and regulations inconsistent with WTO requirements. Work has also begun at the provincial level and in major cities, such as Shanghai.

It is true that since 1999, we have experienced problems in our trade with China. As China continues the economic reforms it began two decades ago, certain segments of its government, particularly those in the state-owned or "planned" sectors of the economy, stand to lose influence. In cooperation with the Congress, Commerce and Agriculture Departments, other government agencies, industry and agriculture, and other governments, we will continue to engage the Chinese vigorously whenever we see such slippage.

### Recent Developments: Shanghai and Geneva

The 1999 agreements, critical though they were, did not mark the end of China's WTO accession process. Still to be completed was the negotiation of the multilateral documents essential to the accession package—the Protocol of Accession and the Working Party Report. These documents describe how WTO rules will apply to China and how China intends to implement the commitments it is undertaking in the area of goods, services and intellectual property rights. It is principally these negotiations that have occupied Ambassador Zoellick and our delegation, first in Shanghai last month and more recently at the Working Party meeting in Geneva last week. We also have negotiated improvements in and clarifications of some of the bilateral services schedules necessitated by ambiguities in China's laws and regulations.

In Shanghai, Ambassador Zoellick negotiated the following improvements in China's accession package:

- An agreement on agricultural domestic support that limits China's recourse to provisions of the WTO Agreement on Agriculture to levels below that available to developing countries.
- A commitment from China to assure that its restrictions on chain stores do not inappropriately restrict the right of American retailers to operate fully-owned distribution outlets.
- A commitment from China on how it will allow foreign companies, including those from the United States, to export to China on a nondiscriminatory, non-discretionary basis without burdensome requirements.
- A phase-out of the current requirement for mandatory cession of 20% of premiums to China's reinsurance state monopoly.
- Broader opportunities for U.S. insurance companies to provide large-scale commercial risk insurance.

In Geneva this past week, we obtained multilateral endorsement of these achievements. In addition, we achieved international consensus on Working Party Report provisions on numerous issues crucial to assuring market access and fair trade with China—*inter alia*, technical barriers to trade (standards), anti-dumping, safeguards, administration of tariff-rate quotas, intellectual property rights, industrial subsidies, and the transitional mechanism to monitor China's implementation of its commitments.

I want to make a few additional points about China's WTO commitments:

- First, our agreements will reduce China's trade barriers across a broad range of goods, services, and agricultural products, eliminate or significantly reduce restrictions on freedom to import and distribute goods within China, and rectify industrial policies intended to draw jobs and technology to China.
- Second, China's commitments are effective immediately upon accession. China will be required to take concrete steps to open its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases to three years.
- Third, the agreements are enforceable. China's commitments are specific, with timetables and dates for staged and full implementation. We will enforce them through our trade laws, WTO dispute settlement processes, as necessary, and other mechanisms including an annual multilateral review of China's implementation and compliance for eight years, with an additional review in the tenth year. We intend to set up a network to help us identify and act upon problems as early as possible, drawing on the assets of our Embassy and Consulates in China, the Departments of Commerce and Agriculture, and the American Chambers of Commerce in China and the region. At USTR, we have added two people to what was a four-person China office and one attorney to our General Counsel's office, all of whom will focus on monitoring and implementation efforts.
- Fourth, the agreement helps ensure that trade with China does not injure U.S. industry and workers. The special anti-dumping provision we negotiated allows us to use non-market economy methodology in judging prices of imports from China for 15 years. The special safeguards provision and the procedures in our PNTR legislation allow the United States to act quickly to address rapidly increasing imports from China that disrupt our market and cause material injury to a U.S. industry. Under this provision we can take action against imports only from China instead of restricting imports from all WTO Members. For textile and apparel products, the accession package includes a special safeguard mirroring our current practice in this area. Our textile and apparel industry will be able to use this safeguard until January 1, 2009.
- Fifth, the increased transparency and accountability that WTO Membership and implementation of WTO rules compel can only have a positive effect in other areas. The essence of the WTO is that it is a rules-based system that requires its members in turn to play by the rules—with the openness and transparency in rule-making and rule-enforcement I noted earlier. Its provisions and philosophy stress the central role of markets and private enterprise. The reforms China is undertaking to conform to WTO rules will provide the basis for further liberalization in China.

#### **Remaining Steps**

It appears we are nearing the end game in this accession process. China has completed the negotiation of all its bilateral agreements except with Mexico and Central America, with which it has been negotiating intensively. Along with our other trading partners, we are in the process of verifying and rectifying each of the commit-

ments China has made in its various bilateral agreements to assure the most liberalizing one makes it into the final accession documents.

I will be going back to Geneva with my delegation this weekend for another Working Party meeting whose objective will be to produce a completed Protocol of Accession, a Working Party Report with as few unresolved issues as possible, and final consolidated schedules on goods and services. If we are successful, this package will be sent to capitals for review. It is possible that early in the fall, what we hope will be the final Working Party session will convene to approve final texts of all these documents.

The full accession package will be reviewed by Ambassador Zoellick and other concerned agencies of the U.S. Government. After that review, the President will decide whether he can certify to the Congress, as required in the PNTR legislation, that the final package is at least equivalent to the bilateral agreement negotiated in 1999. It is our objective to produce a final package that meets that standard.

If the President is able to provide such a certification and other countries provide similar approvals, WTO members, at a meeting of the General Council or possibly at the WTO Ministerial meeting at Doha, would then approve the terms of China's accession to the WTO. China will then need to complete its domestic approval process and formally accept WTO membership. China will become a WTO member after filing its formal acceptance with the WTO.

A final point: we fully expect the WTO to approve Taiwan's accession in the same time frame as China's. As a major player in international trade and a new and thriving democracy, Taiwan deserves membership and a larger role in the international community. We have discussed our expectations on Taiwan's accession thoroughly with all the concerned parties and are confident there is a consensus on this.

#### **The Stakes**

If we fail to grant NTR status to China, it is predictable that the WTO accession process I have described, with its benefits to U.S. business, labor, farmers, and ranchers, will grind to a halt. In such a scenario, we can expect to fall into a cycle of retaliation and counter-retaliation with the Chinese, with markets closing rather than opening and sales, and jobs, going to U.S. competitors.

As was clear in last year's debate on PNTR, without China's accession to the WTO, the benefits of China's commitments in areas such as services and dispute settlement will be unavailable to U.S. companies. All of the tariff and tariff-rate quota concessions will be on hold. The livelihoods of the 400,000 American workers and farmers employed in or benefiting from America's trade with China will be affected.

China's accession to WTO will be a benefit to China, of course, but it is not a favor to China. Indeed, it contains the most rigorous and broad-ranging commitments ever required of a new member to the GATT or WTO. Major beneficiaries will be American companies, workers, and agriculture. It would significantly open the world's most populous country, and arguably the fastest-growing economy in the world, to our exporters and service suppliers. Renewal of NTR is an essential step toward this objective.

I look forward to your questions.

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Chairman CRANE. Thank you, Mr. Bader.

At the end of the negotiations in 1999, the Chinese withdrew their commitments on chemical fertilizers. Can you assure me that nothing will be included in the final Chinese Schedule of Commitments, the Working Party Report, its annexes, or the Protocol of Accession that would undermine the market access commitments the Chinese have made to us on fertilizers?

Mr. BADER. Mr. Chairman, these are very important commitments that the Chinese made. They involve tariff-rate quotas which will vastly increase China's imports of chemical fertilizers, including the fertilizers most important to the United States, diammonium phosphate and urea. In addition, there are commitments to open up fertilizer trading to private companies, phased in

over the next several years, and this will be a great benefit to U.S. companies.

I take very seriously your comment about assuring that there is no walk-back from these commitments. We do not anticipate such a walk-back, and we will assure there will not be.

Chairman CRANE. I understand that the European Union (EU) has received a preferential market access commitment from the Chinese on fertilizer from this period of time and the time China enters WTO. What is the USTR doing to ensure that U.S. fertilizer exports receive the same treatment as EU exports during this interim period?

Mr. BADER. Mr. Chairman, we noted the commitment that the EU received in their last round of negotiations with the Chinese on chemical fertilizers of interest to the EU—fertilizers that they produce that we do not. We have spoken to the Chinese negotiators. I personally raised this with my counterpart in Geneva last week. We have raised this in Beijing. We have raised this at high levels to assure that before accession, that historic levels of U.S. exports of chemical fertilizers are available. We expect if they are going to treat EU that way they will treat the U.S. that way, and we made that very clear to them.

Chairman CRANE. Thank you, Mr. Bader. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman, and welcome.

Let me just discuss with you a bit the nature of the agreement. As you know, I very much agree that in the negotiations China made some significant concessions. In fact, I think the regimen they have agreed to will have profound impacts on the structure of their economy. The subsidization or nonsubsidization or antisubsidization rules are going to have a very substantial, probably a profound acceleration on what has been started there. So I don't want to minimize the likely impact. As I said earlier I don't think that is an automatic in terms of human rights or the path toward democracy. Clearly there are going to be some major changes in their economy; if not started under the WTO regimen, accelerated. So I don't want to appear to minimize them.

And I think it is also true, what we agreed with China, for example, in terms of distribution, will put the markets in China more accessible to us than they are in Japan. China is going to have to have a more open distribution mechanism than is true of Japan, which remains in terms of distribution, often a closed entity. But I do want to suggest that we try to have some balance in our picture of all of this. And you used a term here, which when it was used by the predecessor administration I objected to also, and that is one-way trade concessions. Because that makes it—sounds like we gave up nothing, and I don't think this is true.

First of all, their going into the WTO structure places impediments or strictures, however you want to put it, or regulations, on how we enforce our agreements and how we carry them out. Also, let me give you a specific example and that is textile and apparel. Now, before China went into, or before they go into the WTO, they don't gain the benefit of the elimination of quotas on textile and apparel in 2005, right? So if they weren't in the WTO, we could impose, outside of WTO's approved sanctions like 201 action—we could maintain a quota on textiles from and apparel from China

right. Once they are in, they are going to benefit from that WTO Agreement. Am I wrong?

Now, I don't think anybody should fool themselves into thinking that China as a major textile and apparel processor, producer, manufacturer, is going to be a major factor in the American market. It already is, and it will be competing with our producers, but also with producers from other countries. So I just urge that we not undermine the importance of agreements by overstating them, because then it is not believable.

It is not believable that China would agree to a one-way deal, is it? I mean, doesn't that sell it short in terms of its wisdom, its intelligence, its whatever you want to call it?

Mr. BADER. I appreciate your point, Mr. Chairman, and I think that the WTO Agreement and Balhall Agreement stand on its own and should not be the subject of exaggerated salesmanship. I certainly take your point. Specifically, on our laws and on textiles, I would say that we will still have the availability, the recourse to appropriate trade laws under the WTO Agreement, 201 safeguards, section 301 of the Trade Act, our antidumping methodology, the antidumping methodology. We will be allowed to treat China as a nonmarket economy for 15 years. We have negotiated a special China-specific safeguards provision which allows us to limit imports from China, uniquely from China, in a way that we cannot do with the rest of the world, if there are surges in certain products. But I certainly take your point.

Mr. LEVIN. And we insisted, some of us, that that special safeguard mechanism in the first instance be negotiated, because we made clear to the Clinton administration in that April period, I forget the year already, that without a special safeguard mechanism a number of us could not support a WTO China Agreement. And then they went back and negotiated it and then we insisted, at first over some resistance, that it be embodied in American law.

So I don't want to sell it short because I think it is important. It does have a time limit. And I think we need to be careful when we describe these agreements that we not so overstate that it isn't one way, it isn't 100 percent, it isn't win-win. No trade agreement of any importance is win-win. I mean, there are winners and losers. It is part of the competitive process. And I just thought in your debut here that I would give you the same treatment I gave your predecessors.

Thanks very much and good luck.

Mr. BADER. Thank you, Congressman. I just want to say this is not my debut here. I stumbled in here once before in a previous hearing, and as I walked in—I was with the State Department at the time—the Chairman, I believe it was Chairman Archer, said is there anyone here from the State Department? And they saw me in the corner and yanked me in to answer some questions then on human rights. But I certainly appreciate the welcome. Thank you very much.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Mr. Bader, good to see you. I really just have two quick questions. One is about the automotive industry, and the reason I ask this is because it is such an important exporter and importer. As



I understand it now, Japan really dominates the export market into China, and we are held back; and we have had certain negotiations, and they have refused to budge on these. I just wonder what is going to happen in the next year, particularly if China accedes to the World Trade Organization. That is question number one.

Question number two, something which hangs over all of us because of the lack of rule of law in China, is the whole question of intellectual property. And if that isn't really resolved, it is sure going to curtail a lot of investment in that country which we could make and want to make.

So maybe you could answer those two questions.

Mr. BADER. Thank you, Congressman. First, on the automobile issue, I would not disagree at all with your characterization of the history of the China market.

What we have tried to do in this bilateral agreement and the WTO access is to change that. The historic levels of tariffs on automobiles in China, a couple of years ago when I was dealing with China affairs in a previous job, they were about 250 percent. They have now dropped down slightly below 100 percent, and under this agreement, they will phase out, phase down to about 25 percent over the next 5 years. On auto parts, they will phase down from about 80, 85 percent to about 10 percent.

In addition, one of the things that we negotiated in Shanghai was a commitment to assure that American automobile manufacturers would be able to operate distribution networks in China and to give them direct access to Chinese consumers. Another part of the WTO Agreements is a provision that allows automobile companies and nonbanks to provide automobile financing.

So we have taken a number of steps to try to open up the Chinese market, and American companies are starting to take advantage of that. So we are confident that this historic trend that you talked about will change. I know American cars are already very popular in China. I don't want to get into specific brands, but I know that they are favored by many Chinese.

Mr. HOUGHTON. Intellectual property?

Mr. BADER. Rule of law? I'm sorry, the second question was on rule of law?

Mr. HOUGHTON. Intellectual property rights?

Mr. BADER. Okay. Intellectual property rights. Did you ask about rule of law also more generally?

Mr. HOUGHTON. No. Intellectual property.

Mr. BADER. Okay. Intellectual property rights historically has been a problem in China. It has been the subject of not one, but two special 301 actions against China in the last decade. I think there is not much doubt that the authorities take the issue seriously and are taking some steps to deal with it. They have tried to ban the use of pirated software in government offices. They have periodic crackdowns on—they have had crackdowns on factories producing CDs and DVDs, you know, burnings of pirated goods.

But the problems remain serious, particularly in the—I think in the trademark, in the trademark area. The WTO Agreement would require Chinese acceptance and enforcement, the so-called “trips” agreement, the trade-related intellectual property rights obligations upon accession. But the magnitude of this problem over the last

decade is considerable, and I think it is going to be some time before we see its eradication.

Mr. HOUGHTON. Do you see any movement here?

Mr. BADER. Yes. I think the movement is in a positive direction, in large measure because Chinese companies are beginning to realize that they themselves have a stake in protection of intellectual property in the—for instance, in the information technology area, the Chinese are very active in production and assembly of software and of telecommunications equipment. And so Chinese companies are now insisting to the government that they have to take seriously the enforcement of intellectual property rights.

I remember Bill Gates' visit to China in the early 1990's in which he made precisely this point, that we would start seeing Chinese improvements in their intellectual property regime as soon as pressure came from within, from Chinese entrepreneurs who demanded it; and so I think that we are getting a confluence of these two streams, of the foreign and the domestic. But still, as I say, it is a substantial problem.

Chairman CRANE. Thank you. Mr. Tanner.

Mr. TANNER. Thank you very much, Mr. Chairman. I just have one short question following really along the lines that you questioned Mr. Bader about.

And thanks for being here. I am told that the EU believes they have an agreement with China for seven insurance company licenses. If that's true, and I don't know if you know that, but if it is, what is the status of United States insurance companies getting like treatment from the standpoint of the market absorbing that kind of commerce?

Mr. BADER. Congressman, I have seen the same reports that you have about the EU. We haven't seen evidence yet that the Chinese are acting upon that so-called commitment, but we have seen those reports as well. I certainly agree with the thrust of your question, which is that if markets—if the market is being opened to our competitors, then our companies need to be in there too.

Right now, there are three American companies. Indeed, the first American—the first foreign insurance company to have a presence in China was an American company. And there are more American companies that are interested in going in, and we will advocate very strongly for their entry to the market.

One of the things that the WTO Agreement does is to put in place a requirement that the Chinese provide access for foreign insurance companies, essentially without the kinds of restrictions, without the kinds of bidding wars that have gone on in the past, to do it basically on a prudential basis, to avoid a politicization of the process that historically has been true. But they don't surrender their regulatory rights, and we will have to see how it is implemented.

But we have spent a substantial amount of our time on the insurance issue and trying to assure American access to that market, and I am glad to take your point and to carry that to the Chinese when we next see them.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Bader, thank you for being here. And good luck as you move forward in your position, and let us be as helpful as we can to you as you do so.

Let me ask a question which has, to some degree, I think, left the table of discussion. But I would like to just go back to the act itself that requires us to go through this whole process. One of the conditions is that we take a look at the immigration practices of these countries, and in this regard, we have always waived the immigration condition for China. If the requirement for waiver is that we allow—or the President has the authority to say that the waiver fulfills the national interests and the intent of the act itself, section 402 of the act, and second, that we receive assurances that the country in question, in this case China's future immigration practices will substantially lead to an achievement of the objectives of section 402, that in those cases, if those two conditions are met, then the waiver is appropriate.

In the first, whether the waiver is in the best interest and fulfills the intentions of section 402, I am hoping you can give me some sense of how is it we believe that the best interests of section 402 are being met by a waiver; and second, if you can give me a response in regards to any assurances that we are receiving from China that they intend to move forward and provide—as I guess the language says, countries' future immigration practices will substantially lead to achievement of the objectives of the section.

And put that in context of the fact that we have U.S. citizens and U.S. permanent residents that are now under arrest and prosecution in China, that we have some 150,000 to 200,000 North Korean refugees in China who are, in many cases, being hostilely returned to North Korea; and finally, the human rights abuses that we know China is committing against its own people, many of whom we—I imagine, are trying to immigrate to other countries, including the U.S.

Give me a sense of why we don't give much attention to that side of Jackson-Vanik in terms of immigration.

Mr. BADER. You know, Congressman, historically, as you know, when Jackson-Vanik was first enacted, China was very restrictive on immigration. It was in the late seventies that they began to allow a modicum of immigration. And you will remember the famous quotation from Deng Xiaoping to Senator Jackson, the gist of which was, how many Chinese would you like to immigrate to the United States, one million, two million?

However many, I think the point that Deng Xiaoping was making was that the main restrictions on Chinese immigration to the U.S. came from the U.S. side, rather than from the Chinese side.

There were assurances that the U.S. received from the Chinese back in the early days of the waiver process. I have to tell you candidly that I simply don't know what their most—you know, whether earlier iterations have been, you know, repeated.

But the—your reading of the law is very useful. The key point there is not so much whether there is freedom of emigration from China—I would say that there is not—but whether the objective of freedom of immigration is being fostered and will be helped by the waiver. And I think that that has been demonstratively so by the trend in China in the last—in the last years.

Your point about the American citizens who are under arrest, that is a very valid point, a very serious one indeed. As you know, President Bush raised that in his first telephone conversation with President Xiang the other day. And the State Department has raised this in very strong terms in addition to putting into effect a travel warning to the—to Americans about travel to China because of that.

Mr. BECERRA. Do you think that there could be any influence we could exert in the process of trying to complete all of our negotiations with China that can help us on the emigration side, get them to be a little bit more accommodating to those who are wishing to leave—not necessarily am I saying that we are going to accept a whole lot of folks, but just to make the process a little bit more transparent.

It seems to me that at this stage that China, both in terms of immigration and emigration, is causing a lot of folks a lot of heartburn.

Mr. BADER. I think on that point, Congressman, what the future holds is a necessity for us to maintain bilateral and multilateral pressure on the Chinese to achieve that goal. I think, you know, as we have sort of been—the premise underlying our discussion here, the days of the Jackson-Vanik tool are coming—will be coming to an end once the WTO process is complete, so we won't have that particular mechanism anymore. We will have to put that on our bilateral agenda and talk to our friends about trying to be sure that they raise that as well.

Mr. BECERRA. Mr. Chairman, if I could ask one quick question.

Congressman Brown said something. I couldn't find his testimony to actually be able to quote it again, but he, in essence, said something to the effect that years back we had three-quarters of our trade, or the vast majority of our trade, occurring with foreign countries that were democracies; and in all our years of trying to promote trade with our foreign counterparts, we have actually reduced the number of countries, that we are doing trade with, which are democracies, so that the level of our trade is going more and more to autocracies, to governments with which we probably don't agree.

Can you comment on this? The trend seems to be that as much as American industry says and tries to engage in commerce with countries that are democracies, it seems that, more and more, we are directing our trade to those countries that are less and less democratic.

Mr. BADER. Yeah. I think, Congressman, that without having studies, those statistics—I assume that a good portion of that statistic is due to China, that the mushrooming of American trade with China is the reason that those numbers that the Congressman cited come out that way.

I think it would clearly be a mistake for us to repress our trade with China solely in order to maintain a differential in the statistics, to make the statistics look better. We wouldn't want to use your word, direct—you know, direct our companies to trade only with democracies, particularly since I would certainly contend that the effect of trade on China is a positive one in terms of their evolution if—it does not, as one of the Congressmen said, lead auto-

matically to democracy and freedom, but I think it certainly assists in moving in that direction, as it has historically in other countries in Asia. That has certainly been the trend.

Mr. BECERRA. Mr. Chairman, thank you very much. Thank you, Mr. Bader.

Chairman CRANE. Thank you, Mr. Bader. One final quickie.

As you know, the PNTR legislation contains the sense of Congress that the WTO General Council should consider Taiwan's accession immediately after China's admission. And do you anticipate any possible problems with that?

Mr. BADER. Mr. Chairman, I'm quite confident that will indeed occur. We have made that clear with all of the interested parties. And I repeat "all," that these two should go through in the same session. And what I have heard from all of the interested parties is that that is not a problem.

The Taiwan documents are in very good shape. There is just a little bit of work that remains to be done. And I anticipate finishing that up in the same timeframe as we finish up the China report, and I anticipate seeing those two working party reports going to their capitals in the same timeframe, in the same session, producing accession.

Chairman CRANE. Very good. And we look forward to both of them becoming members of WTO.

Thank you, Mr. Bader, and we look forward to working with you as we proceed down this positive path.

Mr. BADER. Thank you, Mr. Chairman.

Chairman CRANE. And with that, let me now invite our final panel, Bob Stallman, President of the American Farm Bureau Federation; Gary Benanav—I mispronounced it, I'm sorry—Chairman and Chief Executive Officer of New York Life International; Robert Kapp, President, United States-China Business Council; and Calman Cohen, President of the Emergency Committee for American Trade.

Gentlemen, please take seats, and we will proceed in the order that I called your names. And if you gentlemen also could try and keep your oral testimony as close as possible to about 5 minutes, all printed testimony will be made a part of the permanent record.

And with that, Mr. Stallman, you open up.

**STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN  
FARM BUREAU FEDERATION**

Mr. STALLMAN. Well, thank you, Mr. Chairman, members of the Committee. I am Bob Stallman, the President of the American Farm Bureau Federation (AFBF) and a rice producer-cattlemen from Columbus, Texas. AFBF represents more than 5 million member families in all 50 States and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to foreign markets for our economic viability.

I appreciate the opportunity to speak with you today about China trade and the importance of granting normal trade relations to China.

Farm Bureau does support renewal of normal trade relations with China. Strengthening the economic ties with China is in the best interest of our country. Our economic relationship with China

is extremely important to the U.S. agricultural sector and will grow even more important once China joins the WTO.

Currently, China is the sixth largest export market for U.S. agricultural goods, exceeding \$1.7 billion. Together, China and Hong Kong represent the second largest market for U.S. soybean exports and the third largest market for U.S. poultry meats.

Why should Congress grant NTR to China? At a time when most U.S. agricultural commodities are experiencing the lowest prices in decades, stable access to China's huge market is critical.

Second, good trade relations with China are a necessary condition for completing China's accession to the WTO. The USDA forecasts that China will be the number one growth market for U.S. agriculture exports over the coming decade. We must bring China into the WTO under the terms of the bilateral agreement reached between our two countries.

Recently, the United States and China reached an agreement on domestic support spending that will pave the way for China to join the WTO. We believe it commits the Chinese to a specific domestic support spending level that is fair. The agreement stipulates that China will not be allowed to spend in excess of 8.5 percent of the value of its agricultural production on products and nonproduct-specific domestic support. We preferred 5 percent, as other developing countries use, but in the bigger interest of getting an agreement, we certainly accept the 8.5 percent. And China did waive its right to use other developing country subsidies. Upon entry into the WTO, U.S. farmers and ranchers will be granted significant access to China's market for a number of commodities.

Given today's low prices, access into China's market is critically important for our agricultural economy. The Farm Bureau now looks forward to Congress voting to extend normal trade relations to China. Granting NTR status will continue our existing trade relationship with China without interruption. It is vital that America maintains a stable economic relationship with China and forges ahead in completing China's accession to the WTO.

Equally important, we hope to have China at the negotiating table when a new WTO trade round is launched later this year, so that additional market access can be negotiated for U.S. farmers and ranchers to supply China's growing market.

One often-overlooked fact is that China's access into the WTO is synonymous with Taiwan's accession. Taiwan is an important market for U.S. agricultural exports. It represents our third largest market for coarse grains, fourth for fresh fruit, fifth for soybeans and sixth for red meats. Building on our important bilateral trading relationship with Taiwan is also essential for the future viability of U.S. agriculture.

There are two important issues that must be fully resolved before China is allowed entry into the WTO. First, China must fully implement the bilateral agreement on sanitary and phytosanitary measures affecting U.S. meat, citrus and grain exports.

Second, we understand that China is developing rules that will govern export approval for bioengineered commodities. The potential for China to disrupt the grain trade with these regulations is significant. These regulations must be clarified and ultimately implemented in a manner that is consistent with WTO rules.

In summary, maintaining our current level of exports to China with an eye on sizable increases when China joins the WTO is very important at a time when our agricultural economy needs to be strengthened. Granting NTR status to China is a critical step in this process.

Thank you, Mr. Chairman. I look forward to questions.  
[The prepared statement of Mr. Stallman follows:]

**Statement of Bob Stallman, President, American Farm Bureau Federation**

Mr. Chairman, members of the Committee, I am Bob Stallman, President of the American Farm Bureau Federation and a rice producer and cattleman from Columbus, Texas. AFBF represents more than five million member families in all 50 states and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to foreign markets for our economic viability.

I appreciate the opportunity to speak with you today about China trade and the importance of granting normal trade relations to China.

For more than two decades, American commercial engagement has served as a cornerstone of improved U.S.-China relations. We support renewal of normal trade relations with China and underscore the importance of finalizing a U.S.-China WTO Accession Agreement soon.

At this critical juncture, when U.S.-China relations are under strain, it is vital that America maintains a stable economic relationship with China and forges ahead in completing China's accession to the WTO. A WTO agreement is overwhelmingly in America's interest and U.S. farmers and ranchers stand to realize huge improvements in access to China's expanding markets.

We are mindful of, and take very seriously, concerns that have been raised regarding sensitive security and military issues regarding China. These issues are important to all Americans. It is our view, however, that China is at a pivotal point between the hardliners and the reformists. Granting NTR status to China will signal U.S. support for the reformist movement and will pave the way for strengthened economic and political ties between our two nations.

Strengthening economic ties with China is in the best interest of our country. Our economic relationship with China is extremely important to the U.S. agricultural sector and will grow even more important once China joins the WTO.

Currently, China is the sixth largest export market for U.S. agricultural goods, exceeding \$1.7 billion. Together, China and Hong Kong represent the second largest market for U.S. soybean exports and the third largest market for U.S. poultry meat.

At a time when most U.S. agricultural commodities are experiencing the lowest prices in decades, stable access to China's market is critical.

Good trade relations with China are a necessary condition for completing China's accession to the WTO. USDA forecasts that our number one growth export market over the coming decade will be China. We must bring China into the WTO under the terms of the bilateral agreement reached between our two countries.

Recently, the United States and China reached an agreement on domestic support spending. The agreement stipulates that China will not be allowed to spend in excess of 8.5 percent of the value of its agricultural production on product and non-product specific domestic supports. In addition, China waived its right to use other developing country subsidies. Farm Bureau would have preferred that the United States hold the limit on the amount of domestic agriculture support at the five percent ceiling required for developed countries. However, we reluctantly accepted the compromise to break the impasse in negotiations on China's accession to the WTO.

Upon entry into the WTO, China will have to play by the trade rules that are currently observed by the rest of the world. U.S. farmers and ranchers will be granted significant access to China's market for a number of commodities. Given today's low prices, access into China's market is critically important for our agricultural economy.

Granting NTR will continue to foster the cooperative trade relations that are needed in order to complete China's accession into the WTO. It is essential that China join the WTO before a new round of trade talks is launched in that important multilateral trading institution. We hope to have China at the negotiating table when a new round is launched so that additional market access can be negotiated for U.S. farmers and ranchers to supply China's growing market.

We also hope to use the bilateral deal that the United States reached with China as part of the terms of accession as a model for agricultural negotiations on export subsidies and state trading enterprises. In both instances, China agreed to path

breaking commitments to eliminate export subsidies and discipline state trading operations.

One often overlooked fact is that China's accession into the WTO is synonymous with Taiwan's accession. Taiwan is an important market for U.S. agricultural exports. Taiwan represents our third largest market for coarse grains, fourth for fresh fruit, fifth for soybeans and sixth for red meats. Building on our important bilateral trading relationship with Taiwan is essential for the future viability of U.S. agriculture.

There are two important issues that must be resolved before China is allowed entry into the WTO. First, resolution of the bilateral agreement on sanitary and phytosanitary measures affecting U.S. meat, citrus and grain exports must be fully implemented. We understand that China has not fully complied with the letter of the agreement on grains. Full compliance and the commencement of U.S. exports of these commodities will signal that China intends to fulfill its international obligations.

Second, we understand that China is developing rules that will govern export approval for bioengineered commodities. To date we have not received full notification of the requirements that will be associated with China's regulations. The potential for China to disrupt U.S. grain trade with these regulations is significant. These regulations must be clarified and ultimately implemented in a manner that is consistent with WTO rules. Any standards associated with these regulations should not block market access for U.S. agricultural exports. Without such clarification, China should not be allowed entry into the WTO.

In summary, maintaining our current level of exports to China with an eye on sizeable increases when China joins the WTO is very important at a time when our agricultural economy needs to be strengthened. Granting NTR status to China this year is a critical step in that process.

We look forward to working with members of this Committee to secure NTR status for China, to finalize China's accession into the WTO and to enable American farmers and ranchers to more fairly compete to supply the food and fiber China's 1.3 billion consumers need.

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Chairman CRANE. Thank you, Mr. Stallman. Mr. Benanav. Did I pronounce it correctly that time?

Mr. BENANAV. You got it exactly right, Mr. Chairman.

Chairman CRANE. Thank you, sir.

**STATEMENT OF GARY BENANAV, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, NEW YORK LIFE INTERNATIONAL; VICE-CHAIRMAN, NEW YORK LIFE INSURANCE COMPANY; CHAIRMAN, U.S. COMMITTEES OF THE PACIFIC BASIN ECONOMIC COUNCIL; AND CHAIRMAN, PACIFIC ECONOMIC COOPERATION COUNCIL**

Mr. BENANAV. Mr. Chairman, members of the Committee, I am Gary Benanav. I am the Chairman and Chief Executive Officer of New York Life International and vice Chairman of New York Life Insurance Company.

In addition to my corporate position, I serve as the Chairman of the U.S. Committees of the Pacific Basin Economic Council, known as PBEC-US, and the Pacific Economic Cooperation Council, known as US-PECC. While New York Life is a member of the ACLI, I do not appear today on behalf of the ACLI, the American Council of Life Insurers.

I will summarize the remarks which are in my formal statement, which will be made part of the record. Thank you.

I appreciate this opportunity to appear before you on another renewal of China's normal trade relations status. Eighteen months ago the Congress and our Nation debated the granting of perma-



ment normal trade relation status to China. That review culminated with the granting of PNTR status once China accedes to the World Trade Organization.

The PNTR bill was grounded in a negotiated agreement that requires China to open its markets to American exports, thereby giving America the opportunity to improve the trade balance with China; and I would be willing to defend that historic agreement in any boardroom, on any shop floor and on any farm in America.

Mr. Chairman, I strongly supported the passage of PNTR legislation both as a private citizen and as a member of the business community. I continue to support it for the reasons that I am going to outline, and I hope China will become a member of the WTO before the end of this year. But until China's accession to the WTO is finalized, Congress must decide whether to extend the current tariff rates to China.

Every year for the past 20 years, under Republican and Democratic administrations, the United States has faced the decision on extending NTR status to China. Each time Congress supported the continuation of that status, even in years when relations were very strained between the U.S. and China.

I hope Congress will reach the same conclusion again this year. To do otherwise would cause tremendous damage to our own economy, to the economic recovery of Asia and to the stability of international relations. At this important juncture, on the eve of China's entry into the WTO, as you consider the extension of NTR to China, I would like to outline why I believe we should broaden our economic engagement with China and why broader engagement will benefit not only China and the United States, but also the world community.

Mr. Chairman, globalization presents the United States and China an opportunity to cooperate in order to achieve greater overall economic benefits for both countries and increased economic stability for the rest of Asia Pacific. It is in everyone's interest that China's economy grow in a balanced manner, promoting its own internal stability, opening its markets to exports from other countries, and broadening its participation in the global marketplace. China is just at the starting line for creating the conditions necessary to achieve balanced and sustainable growth. The first and foremost requirement is a system of contractual and intellectual property rights that allows people to accumulate capital.

The second requirement is a growing middle class, which will stimulate robust domestic demand, so that China doesn't have to grow its economy solely by expanding exports to the market of its trading partners.

And the third requirement is a broad, privatized financial system which mobilizes savings and channels them efficiently by offering them a range of development options.

The world community has created various institutions and a system of multinational rules based on cooperation. The result is a set of building blocks for a global system that can help sustain and secure economic stability. China needs to have a stake in that global system if it is to realize its full growth potential and expand its domestic consumption.

At the same time, America's interest in a stable world order is best served by having China become more deeply integrated in the international, rules-based trading and financial systems and more dependent on international trade and financial markets. China's growing stake in the smooth operation of a global economic and financial system will act as a strong constraint on China's ability to adopt political or military postures that would have the inevitable consequence of damaging its domestic economic opportunities, or at the extreme, even impoverishing its own people.

Let me talk a little bit about China's domestic political evolution, which has been the subject of a lot of discussion this afternoon. During last year's national debate on trade with China, several commentators predicted that the opening of China's domestic market would inevitably lead to the opening of its domestic political system. I do not believe this is a simple cause-and-effect issue. I agree with Congressman Levin that open economic systems do not, in and of themselves, inevitably lead to open political systems. However, I do believe that without an open economic system there can be no hope of developing an open political system in China.

To shape a stable and prosperous future for China, China has accepted three important realities, which probably would have been considered blasphemy 20 years ago: first, that China must move to a more open, less centrally controlled economy in which the government plays a diminished role in the operation of the market; second, that it must engage actively in the rules-based institutions formed by the community of nations; and third, that it must adopt policies which will develop an educated and robust middle class. All three of these policies will not guarantee, but will enhance the prospects for a more open Chinese political system.

U.S. businesses can continue to support all those efforts to the benefit of both nations. And I believe that the infusion of international standards and values into the Chinese economy will influence the opening of China's political process.

Let me close by emphasizing three points. In the long term, we have to devise a framework for U.S.-China relations that advances our national interest while recognizing that both countries' political and economic security are inextricably linked. Neither China nor the U.S. can succeed with a strategy based on one side winning and the other side losing.

Our near-term challenges are to pass NTR, complete China's WTO accession, monitor China's implementation of its WTO commitment and work with China to build its capacity. And to be successful, we need to establish a domestic and political consensus in the U.S. that trade with China is a win-win proposition, though certain sectors may lose; and economically and politically for the United States, China and the entire Asia Pacific region, economic trade can help solidify the relationship.

Thank you, sir.

[The prepared statement of Mr. Benanav follows:]

**Statement of Gary Benanav, Chairman and Chief Executive Officer, New York Life International; Vice-Chairman, New York Life Insurance Company; Chairman, U.S. Committees of the Pacific Basin Economic Council; and Chairman, Pacific Economic Cooperation Council**

Mr. Chairman, members of the Committee, I am Gary Benanav, the Chairman and CEO of New York Life International and Vice-Chairman of the New York Life Insurance Company. In addition to my corporate positions, I serve as the Chairman of the U.S. Committees of the Pacific Basin Economic Council (PBEC-US) and the Pacific Economic Cooperation Council (US-PECC).

I appreciate this opportunity to appear before you for this hearing on renewal of China's normal trade relations status. I am confident I speak for the lion's share of the U.S. business community when I say I hope that this will be the last hearing that the Committee ever holds on this issue.

Eighteen months ago, our nation was in the midst of a national debate of tremendous importance concerning our relations with China. I recall Senator Moynihan, then in his final year in Congress, saying it was certainly the most important issue the Congress would face in the year 2000, and perhaps the most important decision in the first decade of the new millennium.

That debate culminated with the passage of legislation granting permanent normal trade relations status to China once it acceded to the World Trade Organization. The measure passed with broad bipartisan support in both chambers of Congress. At the time, few people suspected Congress would once again have to consider the issue of normal trade relations with China. Unfortunately, events proved otherwise.

The PNTR bill was grounded in a negotiated agreement that required China to open its markets to our exports and required us to do nothing in return. I would be willing to defend that historic agreement in any boardroom, on any shop floor, or on any farm in America.

**Withdrawing NTR from China**

Mr. Chairman, I strongly supported the passage of the PNTR legislation, both as a private citizen and as a member of the business community. I continue to support it, for reasons I will outline. I hope China will become a full member of the WTO before the end of this year. Until China's accession to the WTO is finalized, Congress must decide whether to extend the current tariff rates to China.

It is almost inconceivable that Congress would not extend NTR. Every year for the past twenty years, the United States faced a choice on China. Should we extend to China the same non-preferential tariffs we extend to countries such as France, Brazil and India, or should we impose upon China the Smoot-Hawley tariffs that wreaked havoc in the 1930's? Every year Congress reached the same conclusion. I fervently hope Congress will reach the same conclusion again this year, and permit renewal of normal trade relations with China. To do otherwise would cause tremendous damage to our own economy, to the economic recovery of the Asia Pacific region, and to the stability of international trade.

At this important juncture, on the eve of China's entry into the WTO as you consider the extension of NTR to China, I would like to outline why I believe we should broaden our economic engagement with China, and why broader engagement will benefit not only China and the United States, but also the world community.

**Benefits of Trade with China**

Mr. Chairman, globalization presents the United States and China an opportunity to cooperate in order to achieve greater economic growth in both countries. Current conditions in the U.S. economy have tangible effects on our trading partners. In the same vein, conditions in China influence the Asia Pacific region and the global economy. It is in everyone's interest that China grows in a balanced manner, a manner which promotes its own internal stability, opens its own market for other countries and participates in the global marketplace.

For balanced political and economic growth, China needs to encourage the expansion of its middle class. This group will stimulate the robust domestic demand needed for long-term growth of the Chinese economy. China's long-term economic development cannot be achieved simply through expanding exports to the markets of its trading partners.

Experience points to the key requirements for balanced growth and a middle class. First and foremost is a system of contractual and intellectual property rights that allows people to accumulate capital. Second is a sophisticated financial system, which mobilizes savings and channels them efficiently by offering a range of investment products. As part of that, a burgeoning middle class requires financial instru-

ments which permit individuals to manage risk by pooling their resources, mobilize capital, and to participate in both the domestic market and the global economy.

The world community has devised institutions to form a system of multilateral rules based on cooperation. The result is a set of building blocks for a global system that can secure and sustain political and economic stability. China needs to have a stake in this global system if it is to realize its full growth potential.

Moreover, the more China is rooted in the international rules-based trading system, the greater the cost to China's own economy of taking political or military steps that undermine the system. China's stake in the smooth operation of a global economic system and the interdependence of the global system will act as constraints on China's ability to adopt political or military postures that will have the consequence of slowing down or damaging its domestic economic opportunities, or at the extreme even impoverishing its own people.

### **The Challenge of Compliance**

Mr. Chairman, the business community has no illusions that economic integration will be a simple process. After China accedes to the WTO, implementation of WTO rules will not be easy or automatic, just as the negotiations between the United States and China were neither easy nor automatic. As Representative Levin said in his recent speech at the Center for Strategic and International Studies, "When China ultimately does accede to the WTO, our work will not have ended, it will just have begun."

The transition will not be automatic because China has not yet developed the full range of institutions needed for a competitive marketplace. China's trading partners will need to be vigilant and work with patient determination to ensure compliance with WTO agreements. Government, business, and NGO's must be prepared to monitor China's implementation of its WTO commitments and must be willing to work with their counterparts in China to help increase the institutional capacity of China to meet its WTO obligations.

The issue of institution building is critical to China's ability to live up to its market opening commitments. In his recent book, *The World Economy: A Millennial Perspective*, Angus Maddison has identified the central factors for successful economic growth, namely the development of strong legal protections for property rights and the building of institutions that foster entrepreneurial activity.

China certainly does not lack entrepreneurial spirit. If you have ever walked the Bund in Shanghai or visited a factory in Guangzhou or talked to students at Beijing University, you know the natural entrepreneurial spirit of the Chinese people. But China does lack the institutional foundations on which that entrepreneurial spirit can flourish.

Professor Arthur Waldron of the American Enterprise Institute has written eloquently on this point describing his concern that China's economic growth "rests on shaky foundations—and these grow more shaky, not less, as that growth continues in a political and institutional vacuum." I share Professor Waldron's concern.

Mr. Chairman, building institutional capacity is essential if China is to meet the challenge of implementing its WTO commitments successfully. If we can assist the development of durable rule of law intuitions in China, one can only imagine how more entrepreneurial the Chinese people could be. New York Life, like many other companies and trade and industry associations, has been active in training Chinese officials about international standards and providing information about the changes needed in Chinese law to meet WTO obligations. Congress took great care to address both of these issues—compliance and institutional capacity—in last year's legislation.

### **China's Domestic Political Evolution**

Mr. Chairman, during last year's national debate on trade with China, several commentators predicted that the opening of China's domestic market would inevitably lead to the opening of its domestic political system. I do not believe this is an issue of simple cause and effect.

Open economic systems do not, in and of themselves, inevitably lead to open political systems. But I do believe that without an open economic system there can be no hope of developing an open political system. As China moves towards a more open, less centrally controlled economy, the government will play a diminished role in the operation of the market. A more open economy will stimulate the growth of the private sector. Trade liberalization will allow foreign competition and challenge the efficiency of state owned enterprises. This is exactly what is happening today in many sectors of China's economy, including the insurance sector.

But the effect goes beyond the economic arena. The energized private sector and expanded middle class in China already are demonstrating increased interest in

democratic structures and understanding of international norms and values. For this reason, we all need to support wider interaction between civil society groups in both countries.

The leaders of China face the monumental task of constructing a productive, stable future for the world's largest nation. China's future will determine in no small measure the future of the entire Asia Pacific region. To shape a stable and prosperous future for itself, China must engage actively in the rules-based institutions formed by the community of nations and must commit domestically to the formation of a robust middle class. U.S. business can contribute to both of those efforts, to the benefit of both nations.

U.S. businesses can also help shape a stable and prosperous China by bringing to the Chinese economy their corporate values, world class standards for treatment of workers, commitment to safety in the workplace, codes of conduct for business operations, support for rule of law and campaigns against fraud and corruption. I believe that the infusion of international standards and values into the Chinese economy will influence the opening of China's political processes in a positive manner.

I want to emphasize three points in closing.

In the long-term, we must devise a framework for U.S.-China relations that advances our national interests while recognizing that both countries' political and economic security are inextricably linked.

In the near-term, we must pass NTR, complete China's WTO accession, monitor China's implementation of its WTO commitments and work with China to build its capacity to comply with WTO obligations.

To be successful in the near- and long-term, we must establish a domestic political consensus that trade with China is a win-win proposition, economically and politically for the United States, China and the entire Asia Pacific region.

Thank you, Mr. Chairman.

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Chairman CRANE. Thank you, Mr. Benanav. Mr. Kapp.

**STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED STATES-CHINA BUSINESS COUNCIL**

Mr. KAPP. Mr. Chairman, thank you for letting me join you again today. It is good to see the stalwarts of this Subcommittee. Am I on or not on?

Chairman CRANE. I don't think—

Mr. KAPP. I am sorry. Now I am. Thank you. It is good to see the stalwarts of this Subcommittee again, hopefully for the last time on this particular subject.

My testimony, as you will see, is largely valedictory. It assumes that we are really at a turning point now, and therefore it attempts to do three things. First of all, in the most sincere way possible it attempts to thank the Committee, and those members who have served on it for all the years that I have been here; for holding these meetings every year and for permitting all of us of different views to touch upon the China we see and the China we think our country needs to work with (or, in some cases, to argue with).

I will regret the passing of this series of hearings, in part because just as they have offered to those who have disagreed with us the opportunity to bring forth concerns of great potency for them, it has given us in the business community a chance to make, as strongly as we could, some points about the essential nature of the economic engagement between our two countries and the importance of that engagement to the rest of our relationship with China. So I want to thank you very much for all of these years of receiving us and treating us so courteously.

Second of all, my testimony is designed to try to urge the Congress, but especially this Subcommittee and the full Ways and Means Committee, to remain engaged on China. We don't need to say that to Congressman Levin, of course, who is one of the architects of the Congressional-Executive Commission on China. But I do think it is very important; as this NTR annual effort seems to be winding down its period of time, that the members of the Subcommittee most concerned with our economic relations with China remain heavily involved on the U.S.-China relationship as a whole. The attention is moving elsewhere. It is moving in directions that in some ways are very, very contentious and potentially historic in their implications for our relationships with China well into the future, but not necessarily on trade and commercial terms. I hope that you will retain your interests in the China relationship as a whole, because there are great challenges, even perils, as well as opportunities ahead of us.

I want to mention just briefly in this informal oral testimony two comments on the testimony of one of the members who spoke earlier. I yesterday received a group of young trainees from the Ministry of Foreign Trade and Economic Cooperation of the People's Republic who are here in this country at their government's expense to train on WTO with some of the best specialists that the United States has to offer, in this case at Georgetown University. We had a great meeting. These are young, highly motivated, very intelligent, interesting people. At the end I said, "Now are there any questions?" The first question was, "Does the trade agreement between the United States and China—the agreement on the WTO accession between the United States and China, which calls for us to lower our tariffs, mean the death of American investment in China?" From the Chinese perspective, the fear is that if they lower their tariffs it will make it easy for American companies to say, "Well, why should we invest over there? We can sell from the United States and get our goods in and sell on the local market without prohibitive tariffs pricing our products out of the market."

So to the argument that as I have heard so often, that the 1999 WTO accession agreement, and the final terms that were negotiated just a few weeks ago by our current trade representative, represent, "not a trade agreement but an investment agreement," designed to take American companies and move all of their production into China, it is interesting to see the opposite concern in Chinese minds, i.e., that if they lower the tax barriers that once priced American goods out of the market, American companies won't bother to invest at all because they can sell into China from production bases in the U.S. or other countries.

And finally, on the matter of Nazi Germany, not only would I associate myself, perhaps more emphatically, with Congressman Levin's remarks, thinking of those who have been victims of Nazi atrocities in the past, but I would also say that historically this analogy is extremely faulty. And in other testimony and in other venues I have noted in the most conservative of intellectual debates, a blistering denunciation of the false analogy between the People's Republic today and Nazi Germany in the period of the 1930s and 1940s or, for that matter, the Soviet Union in the period

of the 1920s and 1930s. So I appreciated Congressman Levin's remark on that.

Let me close with one very quick observation, which I have refrained from making in earlier appearances before this Subcommittee.

You know, in Hamlet, Polonius advises his son Laertes, to thine own self be true. While, I think it is legitimate for us to know what we don't like when we see it in China and not to let it go by unnoticed, I believe we must also approach our dislikes with a certain sense of humility. This morning, in 2 minutes, using a standard internet search engine, I pulled down materials on two events that have gone essentially unnoticed in this country, even though they bear some very significant similarities to the things that galvanize us so about China. One event was the massacre of at least 10,000 people by Chinese armies on Taiwan in 1947, which finally, fully 45 years later, was brought fully to light, to the great credit of the government on Taiwan that had by then come to democratic existence. I leave it to you to look back at the history of whether the United States acted in response to that tragedy in any way comparable to what many have felt the United States must do in the aftermath of tragedies of more recent vintage in China.

The other event, in 1968, on the eve of the Olympics in Mexico City, was also a massacre by the national armed forces, which I know all too little about, but which is now commemorated 30 years later with the beginnings of openings of archives, with the beginnings of revelations as to who put out the orders to shoot and so on. CNN has headlines in its February 4, 1998 story on the search for truth about this tragedy, posts a sub-head: "Pro Democracy Demonstrators Shot in Square."

What I am trying to say here is not that we should not focus on the inequities and the social injustices that we can all see in China. It is to say that somehow, as we look at China and we engage as a body, as a legislative body or as a country with the things that bother us so with the People's Republic, we have to keep tabs on our own reactions to these inequities and tragedies, some of them harrowingly similar to tragedies that have occurred in other countries where the United States in fact has looked the other way, done nothing or found justifications for what transpired.

Now, we could get into a long historical argument here, and if there were other members with different views here I am sure it could get quite colorful as to whether these analogies are perfect or not. What I am to say is that, now that this session and this series is winding down and we can look forward to new forms of congressional engagement with China, I hope we can somehow balance our belief in the need for intense focus on our bilateral relationship with China with the fact that we deal with political tragedies and human experiences in a wide range of countries with whom we often have very different relations and to whose tumults we often have very different reactions.

I apologize for straying from the field of trade and business on the occasion of this likely final NTR hearing, but this is something that I have felt strongly about for many years, and perhaps this is the moment to try to say something along those lines. Thank you, Mr. Chairman.

[The prepared statement of Mr. Kapp follows:]

**Statement of Robert A. Kapp, President, United States-China Business Council**

Chairman Crane, Representative Levin, members of the Subcommittee, thank you for inviting me to appear before you today at this hearing on the Resolution of Disapproval whose passage would, if it became law, end for the moment the extension to Chinese imports of the same tariff treatment that we accord to all but a tiny handful of very small economies around the world.

**1. Introduction**

I am Robert Kapp, president of the U.S.-China Business Council. The Council is the principal organization of American companies engaged in trade and investment with China. Founded in 1973, the Council assists its member companies in developing and pursuing effective business development strategies with China, through a combination of direct advisory services; publications including *The China Business Review*; a constant flow of informational events in both the United States and China, and advocacy efforts in the public policy realm, including appearances before your distinguished Subcommittee. The Council is headquartered in Washington, and maintains field offices in Beijing and Shanghai. I am pleased that our current business leadership, whose best wishes I am pleased to convey today, includes Frederick W. Smith, Chairman and CEO of FedEx Corporation, as our Chairman; Philip M. Condit, Chairman and CEO of The Boeing Company, as Vice Chairman, and former Senator J. Bennett Johnston, CEO of Johnston Development Co., LLC, as Vice Chairman. The Council enjoys the support of approximately 225 respected corporations and services of all sizes, and from most of our fifty states.

The United States-China Business Council strongly urges the members of the Subcommittee, the full Committee, and the House of Representatives to oppose the Resolution of Disapproval, and thereby to sustain—as they have done annually for a decade and as the full Congress has done for twenty years—the decision of the President of the United States to maintain without disruption the flow of trade between the United States and its fourth-ranked trading partner. That trade now totals no less than \$120 billion annually.

The arguments for the continuation of NTR, Mr. Chairman, are familiar to most members of this Subcommittee, and indeed to most Members of Congress. Without in any way taking for granted the views of any Member on the very important vote that he or she will face on NTR this summer, I hope you will forgive me for restating our perspectives on the reasons to sustain presidential renewal of NTR in an attachment to my testimony, for those members who wish to move through what we believe to be the unshakeable logic of NTR continuation, rather than in the main body of my remarks. (**Attachment 1**) I shall be happy to try to discuss any specific issues relating to NTR extension with any Member of the Subcommittee, the whole Committee, or the House itself, whether during today's hearing or in subsequent meetings.

Mr. Chairman, this hearing on annual NTR extension, for a number of reasons, is very likely to prove different in kind from those of the many preceding years in which you and your colleagues have grappled with Resolutions of Disapproval. For that reason, I would like to spend most of my time touching on themes that circumstances have not really made fully appropriate until this year.

**2. Expression of Appreciation to the Subcommittee**

Mr. Chairman, we learn in working on China-related issues in Washington that unexpected surprises, usually bad ones, can happen at any time and come from any quarter, and that it is foolish to assume prematurely a final, favorable outcome of any issue involving our two nations.

Nevertheless, developments last month and last week give unprecedented strength to the belief that the end of the fifteen-year-long process of negotiating China's responsible participation as a full member of the World Trade Organization is now close at hand.

As you know, in accordance with the historic PNTR legislation approved by the 106th Congress last year, when China enters the WTO, on terms as favorable or more favorable to U.S. interests than the terms of the historic U.S.-China Bilateral Agreement on WTO accession concluded in November 1999, the United States will extend to China full WTO-member treatment in the form of Permanent Normal Trade Relations treatment of Chinese imports. The United States will in turn enjoy full-WTO member privileges in its trade relations with China. With that, the re-



quirement of annual renewal of standard U.S. import duties on Chinese products required under the Trade Act of 1974 will come to an end.

In other words, it now appears very likely that this NTR hearing will be the last of its kind.

I have appeared before this Subcommittee every year since coming to Washington in the spring of 1994. I have come to know some members of the Subcommittee well, and to know and respect key members of the Subcommittee's talented and extremely hard working staff.

Please permit me to say how much my Council has valued the dialogue that we have maintained with the Subcommittee on Trade over the many years of this annual discourse, and how much I personally appreciate the courtesies that the Subcommittee has accorded to me and the U.S.-China Business Council over the years that I have served here. I know that for most of you, China is but one of a thousand issues that fill your calendars and your minds. For me, China has been for decades the central concern of my working life. The seasonal opportunity to concentrate with this Subcommittee on issues of China's development and of our nation's relations with the PRC has been very rewarding to me—and, I hope, helpful to you.

Our Council sincerely welcomes and encourages the continuation of dialogue with Members of Congress on the broad range of China issues—commercial and non-commercial—which informed policy makers must continually study. Please consider us ready, willing and able to offer information to you, convene experienced and thoughtful figures from the world of U.S.-China business with you, join with you in meetings in your home districts or other venues, and assist you in fruitful visits to China in the future. The Council also will hope to bring interested members of this Subcommittee into its programs when appropriate, so that we can benefit from your perspectives and ideas.

### 3. Congress and U.S.-China Trade and Economic Relations after PNTR

Each member of Congress who voted in favor of H.R. 4444 last year surely had his or her unique combination of reasons for doing so, but I believe at bottom most members chose to support PNTR in the belief that full WTO-member relations between our nation and China after WTO accession would provide two core benefits to the United States:

- substantially increased opportunities for American industrial and agricultural producers, service providers and investors under the extraordinarily far-reaching accession terms our representatives had successfully negotiated with China (terms that our current negotiating team led by Ambassador Robert Zoellick further solidified in last month's crucial Shanghai negotiations); and
- long-term assurance that a China fully committed to conducting its international trade according to the world's "rules of the road" under WTO, and subject to multilateral disciplines under WTO dispute resolution, was a far better bet for America and the world trade system than a China excluded from full participation in the world trade community and thus unbound by global expectations and requirements.

In addition, many members from both parties—legitimately, in my view—came to understand that the changes in state behavior that WTO's most basic principles require of China—transparency in legal and regulatory policy, for example, or non-discrimination in the treatment of foreign and domestic goods and services—bear within them the seeds of enormously positive evolutionary changes in Chinese society, along lines that nearly all Americans would welcome and support. Taken together, the somewhat breathless article by one of the media's best informed commentators on China's internal dynamics and my own much more limited essay on China's growing dialogue over WTO's implications would tend to justify members' cautious optimism on this crucial issue. (**Attachments 2 and 3**)

American companies doing business with China, many of them now in their third decade of the most kind of on-the-ground engagement, have a realistic appreciation of the weight of the tasks that WTO membership will soon impose on China's government and society.

They are optimistic about the elimination of market barriers and the reduction of trade-distorting practices under WTO, and thus about their enhanced opportunities for successful business with China.

Having in large measure defined American negotiating goals throughout the prolonged WTO accession negotiations, American firms also believe strongly in the necessity of China's realization of its WTO commitments as defined in the nearly finalized accession documents.

American companies accept fully the legitimacy of Congress's concerns over China's ability to implement fully its WTO commitments, and understand the necessity

of continuing close U.S. observation of China's efforts and achievements in living up to its WTO obligations.

At the same time, however, recognizing the enormity of the challenges that the WTO presents to China, we feel strongly that the U.S. government and American businesses must commit themselves to extending the hand of cooperation to China as the PRC takes the path of responsible participation in the world trading system.

This is not the time merely to stand on the sidelines with a clipboard and a pencil, filling out a compliance scorecard. Scorecarding is part of the process that lies ahead of us. But expanded, effective bilateral cooperation on key elements in WTO implementation deserve equal American emphasis.

The Chinese themselves have embarked on intensive efforts at introducing WTO concepts to legions of policy makers and bureaucrats at the central, provincial, and local levels, many of them hardly familiar with "the system" that our own country has so heavily influenced and enjoyed since the end of World War II. Hundreds of national laws have been examined, as required under WTO, for compliance with WTO rules, and where necessary are being revised to ensure formal compliance with WTO requirements. Members may find the attached brief U.S.-China Business Council analysis of these efforts to be of interest. **(Attachment 4)**

Today, American educational institutions are pitching in, providing long- and short-term training programs for eager Chinese government and business officials, many of whom come to the United States at Chinese government expense for the purpose of imbibing American expertise in the operation of a WTO-compliant market-oriented economy.

I myself, in cooperation with the enthusiastic and capable leaders of the Shanghai WTO Affairs Consultation Center and our own Consulate General in Shanghai, have had the pleasure of organizing a continuing series of digital video conferences on WTO issues, bringing together teams of U.S. specialists and an audience of Chinese participants in Shanghai for lively discussions, not only on specific technical provisions in the WTO, but on the very workings of a WTO-informed political/economic/social system.

The U.S.-China Legal Cooperation Fund, supported by voluntary contributions from member companies in the U.S.-China Business Council and operating with no administrative budget whatsoever, continues to support worthy U.S.-China joint programs in the field of law, in an effort to help build not only specific WTO-compliant institutions in China but to strengthen the foundations of a more equitable and accessible legal system in a rapidly changing China. **(Attachment 5)**

Mr. Chairman, we in the business community welcome and encourage the willingness of the Congress and the executive branch to roll up their sleeves and pitch in with us on the long-term cooperative agenda with China that will help to ensure China's fullest realization of its WTO commitments in the shortest possible time.

We believe that this is very much in the U.S. national interest, in the interest of China itself, and in the fundamental interest of an equitable and orderly world trading system.

We hope the Ways and Means Committee and its distinguished leadership will continue to work to enhance awareness throughout the House of significance of a far-seeing and sustained effort, not just to monitor and grade China's WTO compliance, but to support and enhance China's own efforts to achieve that compliance.

#### **4. The Changing Agenda of U.S.-China Relations, and the Shifting Center of Congressional Interest in China**

During the extended debate over PNTR legislation last year, it was widely understood that many of those in the House who either opposed PNTR outright or who were uneasy about approval of H.R. 4444 were concerned that elimination of the annual NTR debate would deprive them of a legally mandated opportunity to bring to the Congress's attention those aspects of U.S.-China relations—and of China's internal affairs—that they felt needed to be aired in the interests of sound policy and faithfulness to their basic values. Thanks to the skill and creativity of key Members of the House, most notably Representatives Sander Levin and Doug Bereuter, whose names adorned a massive set of provisions included in the final bill, the Congress provided both for the extension of full WTO-member treatment to China upon its WTO accession and for the continuation of Congressional examination of certain questions of concern to members once the annual NTR debate drew to a close forever.

Our Council stands ready to cooperate with responsible and constructive efforts of the Congressional-Executive Commission on China, established under H.R. 4444, to carry out its mandated functions.

Now that the annual NTR discussion does seem to be winding down for good, I think that even we in the business community, who have worked with this Sub-

committee to support stable and expanded U.S.-China trade relations for so long, will also feel a twinge of regret and a sense of concern.

The reason is that, for us, the NTR process offered an opportunity to re-emphasize essential points (or introduce them to new members) about the significance and the promise of expanded economic American opportunities accompanying China's rapid economic growth, and about the vital importance of healthy bilateral economic ties to the management of the entire, highly challenging, relationship between the United States and China.

In the absence of a forum for the discussion of our massive and far-reaching economic engagement with China, the Congress is likely to turn its attention to China increasingly over questions not normally analyzed in economic and commercial terms. Ironically, we in the business community may find ourselves watching with concern if the center of legislative interest in China shifts moves too rapidly and too completely away from the economic dimensions of U.S.-China engagement.

Therefore, we in the business community would say to members of this Subcommittee, and of the full Ways and Means Committee: don't let the promise, the achievements, and the challenges of U.S.-China trade relations drift too far into the shadows. Help us to remind lawmakers in both parties that U.S. economic success is a core element in the definition of U.S. national interests *vis à vis* China. Help to sustain the understanding, so hard-won in the 106th Congress, that our economic engagement with China contributes to American economic vitality and to progressive change within China itself. Lend a hand in making sure that easy but misleading phrases like "Profits vs. Principles" and "Trade vs. National Security" add little to responsible policy formulation, and are best met with sober Congressional understanding of the salience of effective U.S.-China economic and commercial cooperation in advancing a broad American agenda with China, whether bilaterally, in the Asia-Pacific Region, or in global arenas.

## 5. Conclusion

Mr. Chairman, for literally decades, the Trade Subcommittee of the House Ways and Means Committee has had a uniquely significant role in the making of U.S. policy toward China, thanks to the accident of a few paragraphs of Cold War legislation originally aimed at the Soviet Union and only latterly brought to bear on U.S. relations with the People's Republic of China. The Subcommittee has facilitated wide-ranging debate, sometimes extremely heated, over our policies with regard to China. The Subcommittee's steadfast support of sensible, stable, non-preferential economic relations with China, augmented by the support of the full Ways and Means Committee, has provided indispensable guidance to the House on persistent and far-reaching policy question. Once again, we thank the members for their hard work each year on MFN/NTR.

On behalf of our Council's companies, who have achieved so much already with China and who now view China with both optimism and sobriety, I urge you to remain interested. Engage with us, and with those who see the same questions from different vantage points. Visit China as often as you can manage. Engage with Chinese colleagues, through the established U.S.-China Interparliamentary Exchange program or through the new Congressional Study Group on China now being set up under the leadership of Representatives Manzullo and Lantos and the auspices of the Association of Retired Members of Congress. The balance and wisdom of the Trade Subcommittee and the full Ways and Means Committee has been a true national asset in the American discourse on China, and we hope that it will remain a vital part of our national dialogue on China in the future.

Thank you.

Attachments:

"NTR 2001: To Sing the Blues or Walk the Walk." *The China Business Review*, May-June 2001.

"WTO Winds will blow away the old China," CNN.com, July 3, 2001.

"China's Dialogue on the Coming of WTO," *The China Business Review*, January-February 2001.

U.S.-China Business Council. "Toward WTO: Highlights of PRC Implementation Efforts To Date."

Recent press releases announcing grants by the U.S.-China Legal Cooperation Fund.

## THE US-CHINA BUSINESS COUNCIL

*Letter from the president*

### *NTR 2001: To Sing the Blues or Walk the Walk*



**Robert A. Kapp**

*Like a bolt from the blue ... the "Blue Team," the truest case of David versus Goliath in the big-money world of Washington foreign-policymaking ... is posing the biggest-ever challenge to the generously funded China lobby of the Democratic and Republican establishments. ... Unlike much of what they call the Red Team, which is blamed for putting business concerns above national security, Blue Teamers aren't in it for the money. ... Today, the Blue Team no longer is merely a small group of individuals but a movement. ...*

*... China's April 1 interception and downing of a U.S. Navy EP-3H [sic] intelligence plane in international airspace, its detaining of the 24 crew members and the continued impoundment [sic] of the aircraft have served to galvanize opinion among the American public, in Congress and within the Bush Administration around positions Blue Teamers long advocated. ..."*

(Excerpted from J. Michael Waller, "Blue Team Takes on Red China," and "Blue Team Vindicated Time and Again," *InsightMag.com*, June 4, 2001.)

Yes, it's NTR time again.

China isn't in the World Trade Organization (WTO) yet, though it made a giant stride in that direction with the June 7 agreements between U.S. Trade Representative Robert Zoellick and PRC Minister of Foreign Trade and Economic Cooperation Shi Guangsheng. Still, Permanent Normal Trade Relations (PNTR) is not yet the law of the land. And, in America, the law really is the law: no WTO, no PNTR. So we recline again into the steaming cauldron of a summer NTR debate.

Allow me to offer some thoughts on why it would be better for all of us if Congress decided not to overturn President George W. Bush's decision to renew plain-vanilla tariff treatment of China's imports to the United States for another year (or less, if China gets into the WTO before June 2002 and PNTR goes into effect as Congress intended) than if the United States were to shut down \$120 billion in trade with its fourth-ranked trade partner.

What follows can't match the flamboyance of the Men in Blue. It accuses no one of "kowtowing," "appeasing," or being a "paymaster" for the opposition.

I like to think that what follows pretty much embodies a case that the Congress has already broadly understood and accepted. Congress has, after all, sustained the presidential decision to keep the floor of our nation's engagement with China in place every year for the past decade and passed the historic PNTR legislation one year ago.

1. The United States and China share a shrinking globe; each must maintain a firm commitment to strengthening the foundations of global stability. China and the United States continue to face opportunities and challenges in dealing with numerous regional and global concerns, from the questions before the upcoming Asia Pacific Economic Cooperation (APEC) meetings in Shanghai to the Korean Peninsula question, to issues of international cooperation in law enforcement and environmental affairs, among others. Neither country can wish the other away.

2. As China has increasingly entered the mainstream of world affairs since the end of the Mao era 25 years ago, it has become a major trading nation and a major trade and economic partner of the United States. It ranked seventh in the world in total trade volume last year. Total U.S.-PRC merchandise trade last year exceeded \$120 billion. China is now the fourth-ranked U.S. trade partner, and the United States is China's second-ranked trade partner. Since 1979, U.S. firms have invested roughly \$30 billion.

3. Economic and commercial relations have been the most positive aspects of an often-troubled U.S.-China relationship. Their continuation is essential to the maintenance of orderly engagement and to the prevention of an ill-advised free fall in U.S.-China affairs.

4. China and its WTO trade partners have resolved remaining issues standing in the way of China's full accession to the WTO. Because it will be some months before China's accession process is complete, under current law Congress must again consider whether to act as it has since 1981, by concurring with presidential renewal of standard U.S. import tariffs for an additional year, or whether to do what it has never done through all the debates of the 1990s: overturn the action of the president of the United States in sustaining Normal Trade Relations with China.

5. Since 1992, the House has voted each year to sustain presidential renewal of NTR trade with China, on the grounds that NTR is merely the standard treatment the United States accords to all but a tiny handful of insignificant economies around the world, that the increasing economic interaction between the two nations is fundamentally in the U.S. national interest, and that U.S. repudiation of the massive trade relationship would hinder rather than help to address non-trade issues of concern to many members of Congress.

6. Congressional defense of normal trade status with China this year is in all likelihood a holding measure pending implementation of PNTR. Last year Congress, after a major debate, agreed that the full integration of China into the world's systems of economic and commercial rules and laws, through WTO, was in the best interests of the nation and the world economy. When China enters the WTO, perhaps by the end of 2001 or else probably in 2002, PNTR will become the Law of the Land, and annual congressional action on NTR renewal will cease.

7. President Bush has clearly pointed out that a productive relationship with China is desirable and possible and has pointed to trade and economic relations as an example of what is most positive about U.S.-China relations today.

8. The United States and China have found it difficult to manage many non-trade problems in recent years. It would be immeasurably harder to control these issues if Congress were to succeed in overriding presidential renewal of NTR.

9. America's friends in the Pacific, including Japan and Taiwan, as well as the people of the great free-market center of Hong Kong, strongly support continued stable economic relations between the United States and China; rejection of NTR would cause severe economic dislocation throughout the Asia Pacific region.

10. The fundamentals of the NTR question remain unchanged, in spite of recent flare-ups in the relationship:

- Trade and economic engagement with China generates American employment and contributes to business strength in the United States. China's continuing growth at 8 percent and its commitments to major new market-opening measures under WTO represent opportunity and stability for the U.S. economy, particularly now, when the U.S. economy is slowing. U.S. exports to China rose 36 percent year-on-year in the first quarter of 2001.
- China's imports to the United States at ordinary tariff levels help to keep consumer goods affordable for all Americans, particularly those with low and moderate incomes.
- China's internal evolution in the direction of the market economy, WTO reforms, and the expansion of private enterprise remains on track, despite Chinese domestic worries that these reforms will provide too many opportunities for Americans and others at the expense of those in the PRC who benefit from China's current closed markets.
- China's economic relations with Taiwan, already massive, continue to expand heavily as the economic integration of the mainland and the island progresses. Taiwan's leader has stated his hope for continued normal economic relations between the United States and China.
- Shutting the market to tens of billions of dollars in Chinese exports to the United States will result in the closure of the Chinese market to U.S. exports; the economic punishment of many ordinary workers in Chinese industries; the reduction of U.S. employment supported by exports to China; the ceding of key strategic markets to U.S. competitors in Asia and Europe; the stigmatization of political figures and others in China who are committed to the prime impor-

tance of a cooperative relationship with the United States; and very probably the comprehensive degradation of U.S.-China relations, with unforeseeable consequences for both nations.

There it is: the case for NTR renewal, the case for a stable baseline in U.S.-China relations. If the Blues want to call this “kowtowing to Beijing,” so be it. I think the Congress will be more sensible than the Blues expect.

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## WTO winds will blow away the old China

By Willy Wo-Lap Lam  
CNN Senior China Analyst

**(CNN)—Globalization is not a dinner party. Much has been written about the impact of China’s entry to the World Trade Organization (WTO) on the country’s economy.**

However, it is clear WTO accession and globalization in general will chip away at not only Beijing’s “economic sovereignty” but also the power base and prerogatives of the Chinese Communist Party (CCP).

About two years ago, the CCP and State Council set up a special team to study the WTO’s impact on domestic politics.

While the team’s findings have not been publicized, it is clear WTO accession will pose severe challenges to the authority of the party and state apparatus.

In a prescient paper written soon after the dissolution of the Soviet Union in the early 1990s, a group of sons of party elders argued that to avoid the fate of the USSR, the CCP must never lose control over the economy and businesses.

There seems little doubt, however, that both the party and the central government have to sever links with enterprises in the post-WTO order.

Largely because of WTO-related pressures, Beijing last year began asking state-owned enterprises (SOEs) to beat a retreat from more than 150 competitive industrial sectors.

In several years, private firms, foreign firms and joint ventures will split up the sky with SOEs.

As more Chinese get their paychecks and services from non-state entities, the party’s authority may be dealt a body blow.

Then there are the unexpected side-effects. For example, the CCP’s ability to start and operate party cells in joint ventures and wholly-owned foreign concerns may be challenged by overseas businessmen.

Equally significantly, the party and government have since the 1950s exercised control over the economy and the country mainly through issuing decrees, often in the form of hongtuo wenjian or “documents with red letterheads.”

### Monopoly powers

These diktat and executive fiat enjoy the same status as legal statutes—and cadres and citizens alike are required to treat them as such.

After WTO accession, however, it is obvious that these documents with red letterheads will have to go.

First to be affected will be party and government orders giving monopoly powers to certain SOEs—and fixing the prices of their products.

After all, the WTO’s central spirit is the rule of law—and respect for fair competition and other global standards.

Beginning late last year, Beijing has asked provincial and municipal administrations to do a thorough vetting of hongtuo wenjian with the view to invalidating most of them—and replacing them with proper legislation.

In an article entitled “Beware that hongtuo wenjian may violate the law,” the official Xinhua news agency reported last week that a couple of SOEs in Anhui province have lost their monopoly in the course of the campaign to weed out state fiat.

### Party-dominated

Yet the WTO’s fallout will not be restricted to the abolition of this or that particular state decree.

The very concept of a party-dominated legal system is imperiled.

It is an open secret that since 1949, the law courts—as well as legal interpretation in general—are under the thumbs of a secretive CCP organ called the Political and Legal Affairs Commission.

Another pillar of CCP domination—the control over information—is jeopardized. This is even though WTO protocols so far signed with the United States or the European Union have made no provisions for joint venture newspapers or TV stations.

But these WTO agreements do allow for joint venture Internet companies, although foreign partners cannot hold more than 49 percent of total shares.

Analysts say Beijing will find it difficult a few years post-WTO to resist pressure to open up the news business, even though initially foreign partners may only be allowed to handle advertising, marketing and distribution.

Also under threat will be Beijing's vaunted ability to guard "state secrets" from foreign eyes.

For example, the CCP leadership has refused to allow Western companies to conduct information-related businesses such as polling and market research, for the obvious reason that such activities can yield a bonanza of politically sensitive data.

After WTO, Beijing may no longer be able to keep up the bamboo curtain.

Indeed, police and state security departments are keenly aware that many Western-style commercial operations can have heavy political overtones.

#### **Networks of salesmen**

A case in point is direct or door-to-door marketing through close-knit, quasi-pyramid networks of salesmen. In the mid-1990s, Beijing asked several foreign firms in the areas of cosmetics and household products to stop direct-sales activities.

An internal paper cited the political implications of such tightly organized marketing teams, which often boasted several tens of thousands of sales people.

The document said law and order, a euphemism for CCP control over everyday life, might be threatened if "hostile foreign forces" including quasi-religious bodies were able to use such sales networks to pursue anti-Beijing goals.

Consider also the fact that post-WTO, the state may have to yield its monopoly over education to foreign institutions, including commercial operators.

#### **Direct consequence**

Already in Shanghai and Shenzhen, more and more nouveau riche parents are sending their kids to international schools, where Marxism-Leninism is hardly taught.

From the party's standpoint, the direct consequence of WTO entry may be changes in people's thinking.

As a Beijing-based social sciences professor put it, if everything is now being done according to international—in many instances, Western and American—norms, more people will cast doubt on CCP ideology.

"It will become clear that values and systems such as socialism and 'dictatorship of the proletariat' run counter to global trends," the professor said.

WTO accession, of course, will not affect the party's hold over control mechanisms such as the army, the People's Armed Police and the police.

Yet a pluralistic market milieu will afford ordinary folks ample opportunity to thumb their nose at the CCP—and with devastating effect.

For example, well-trained personnel including scientists, engineers and managers can vote with their feet by working for foreign or joint venture firms, not government departments or SOEs.

As State Councilor Wu Yi put it in an internal talk, globalization meant first of all a fight for talents between government units and SOEs on the one hand, and multinationals on the other. People can also vote with their pocketbook.

If Chinese have lost faith in the authorities, they may convert their renminbi into dollars and euros, put their money in foreign banks, patronize foreign insurance companies, purchase foreign stocks instead of local ones—and, a few years later, buy Global Daily instead of People's Daily.

Perhaps because of fear of impending loss of control, the Jiang Zemin administration has in recent months cracked the whip on dissident organizations and imposed blanket censorship on the media.

Over the long haul, however, there seems little doubt the forces of economics will triumph over outdated dogmas—especially those that serve only a privileged minority.

## CHINA'S DIALOGUE ON THE COMING OF WTO

January–February 2001 Issue: Robert A. Kapp

Cover by Benjamin Hurd

While America grinds through its election and post-election rituals and prepares for a new administration, hoping that the newcomers will make fewer of the inevitable first-year mistakes than most of their predecessors have made, China grapples with the coming of the World Trade Organization (WTO).

Even before the tortuous Geneva accession negotiations conclude, the Chinese are engaged in a heavy discussion of what the WTO means for China—not just in terms of jobs or exports, but in terms of China's own future as an economy and a society. I have read several lengthy and well-informed book-length analyses of the likely impacts of WTO membership on the Chinese economy, sector by sector. Articles from every province and city appear in print and online daily.

Combined with the avid study of information about the WTO's rules, operations, and dispute resolution experiences, the sheer volume of published material on the WTO—what Chinese are saying to each other where all can see and hear it—is impressive, and ought to be of real interest to U.S. business and to U.S. policymakers. As in any debate over a big new international trade agreement in any country, some of the material is repetitive, even predictable; certainly that was the case in the United States during the NAFTA and Uruguay Round debates. But taken as a whole, China's current debate reveals where China hopes—and sometimes worries—the WTO will take it.

Our dialogue with China on the WTO, as on other matters, will be more productive if Americans have a living sense of issues under debate within China on any given subject, and indeed if the Chinese, in turn, have that same living sense of America's key concerns on issues we debate regarding China. The WTO offers a good example.

Here, then, is a short example of what is being said within China about the WTO. The writer, Zhao Yihuai, is an official of the Shanghai Municipal Office for Restructuring the Economy. He published his piece recently in the major Shanghai newspaper, Liberation Daily. The article was then posted to a rich compendium of WTO essays found on the website of the national newspaper of the Chinese Communist Party itself, the *People's Daily* (<http://www.peopledaily.com.cn/>). You have to read Chinese to plow into this “China Enters the WTO” collection, but if you do, or if you know someone who can help you, it is a worthwhile trip.

What follows are excerpts from “How Should the Government Respond to WTO Entry?” by Zhao Yihuai (my translation):

**“Any country entering the WTO is considered to be a market economy. ... Conceptually, this means changing from ‘omnipotent government’ to ‘limited government.’”—Zhao Yihuai**

China's entry into the WTO is first and foremost a government entry. Never mind whether it is the central government or local governments: all have to be adequately informed. For a long time, our economy has been a government-led economy: government policies and system regulations were formed from a single, internal, national understanding and set by the nation's own circumstances. After China enters the WTO, it faces a new environment. China must accept rules of the game already put in place by the WTO. We may not simply change those rules without authorization, but instead must obey and support them. Therefore, governments need to ratchet up the modification of our laws and regulations to make them compatible with the basic principles and the basic spirit of the WTO, so that we can effectively adapt to this new economic environment. Concretely, we should start with the following:

**“How Should the Government Respond to WTO Entry?”—Liberation Daily**

- The first step, naturally, is to speed up our own structural reforms. Compared to the reform process in the past, the biggest change in our reform process after WTO entry will be from “We Want Reform” to “We Must Reform Ourselves.” This imposes a new system of reform upon us. To meet this challenge, governments must consciously increase the intensity of their reform efforts, and speed up the steps leading to the marketization of the national economy. In keeping with the requirements of the WTO, we must deepen the reforms of our financial structures, our food distribution structures, our social insurance systems, and so on, rooting out the discrepancies and the frictions between our domestic systems and international rules. Elimination of such conflicts is the precondition for the true alignment of our national economy with the world economy.



***The Chinese are engaged in a heavy discussion of what the WTO means for China***

- Next, we must expand the grounding of government policy in law, and increase the transparency of government policies. Enhancement of legality is necessitated by the requirements of the market economy. Any country entering the WTO is considered to be a market economy. This requires government conduct to advance along tracks defined by law. Conceptually, this means changing from “omnipotent government” to “limited government.” With WTO entry, China must erect both a new conceptual basis to undergird government conduct and new forms of government action. Looking at today’s realities, the first task is to eliminate many outmoded internal regulations and policies that are not compatible with WTO rules. For example, in dealing with the non-public economic sector, governments must realize the commitment to nondiscrimination, in order to create a fair environment for the operation of the nongovernmental economy. That means to the greatest possible extent avoiding preferential policies and subsidies for state-owned enterprises, in order not to provoke retaliation from abroad.
- Next, China must energetically enhance the economic management abilities of governments. WTO entry does not signal the general weakening of the managerial skills of governments. On the contrary, it is through the reform of government systems of economic management and the strengthening of the rational professional skills of governments that we will be able to preserve the basic interests of the people and the national economic security in a globalized environment of intense competition.
- Specifically, this means, (a) providing correct guidance and active fine-tuning. These roles are recognized under the WTO system. . . . And (b), it means energetically supporting our own interests. We must utilize all the safeguard methods authorized by the WTO for its members to use in guarding their infant industries. We must actively explore effective support mechanisms, to defend against the massive onslaught against our national production sectors and our vulnerable products in the midst of bitter competition. Of course, the purpose of such government protections is not to protect backwardness; rather, it is ultimately to end such protections and to raise the international competitive power of the producers and products afforded the protection.

In sum, entering the WTO drives forward our country’s historic opportunity to develop along market economy lines. It serves as a new driver of all facets of our nation’s reform and “opening.” Agencies of government cannot but actively rise to this challenge, advance the reform process within the framework of the WTO, and only by so doing preserve the autonomy of our nation’s economy amidst the competition of a global economy.

As America endures a laborious political transition, and U.S. companies peer into the future at home and overseas, China’s discussion of its future in a WTO-based global economy goes on apace. The adjustment to life in the WTO may not be easy for China or its trade partners. But there is plenty of evidence—far more than I’ve been able to offer here—that suggests that the WTO is being taken with the greatest seriousness in the PRC, and that its implications for economic and other changes within China are very much in public view. The more we can know about the dynamics of the WTO discussion within China, the more effectively the U.S.-China Business Council and its member firms can pursue with Chinese counterparts the full and successful realization of China’s new rights and responsibilities.

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**TOWARD WTO: HIGHLIGHTS OF  
PRC IMPLEMENTATION EFFORTS TO DATE**

June 2001

*The U.S.-China Business Council is committed to tracking WTO-related changes in China. This document highlights particular PRC efforts, as known to the Council, to bring its system into WTO compliance. It is not intended to be comprehensive. China has taken positive first steps to implement its commitments, but significant gaps remain. The Council will continue to update this report on a quarterly basis.*

- **Revising Laws and Regulations:** In preparation for China’s accession to the World Trade Organization (WTO), PRC officials have begun to bring China’s legal and administrative regimes into compliance with WTO rules. According to

PRC legislators, more than 1,300 national and local laws and regulations did not comply with the WTO rules as of October 2000. The National People's Congress (NPC) and State Council announced in 2001 that they would formulate 26 new regulations, amend an estimated 140 national laws and regulations, and abolish another 573.

- **New Legislation:** Drafts of new and amended legislation are said to be circulating and include new antitrust, foreign trade, antidumping/countervailing duty, safeguard, import/export commodity inspection, copyright, and trademark laws, as well as regulations governing foreign investment in the telecommunications sector and a revised Catalogue Guiding Foreign Investment.
- **Publishing Laws:** The PRC government has initiated an effort to publish laws and regulations on various government websites, and new laws continue to be announced in the *MOFTEC Gazette*. A bigger challenge for PRC government agencies will be how to make the legislative process more transparent and to change current lawmaking procedures that allow many laws to be enforced even if they are not published.
- **Shanghai:** Shanghai leads other localities in its WTO preparations. The legal affairs office of the Shanghai municipal government has reportedly identified 52 city laws that must be revised and 40 city regulations that it will abolish in the coming year. The Shanghai government established the Shanghai WTO Affairs Consulting Center on October 26, 2000 to provide local and foreign enterprise managers and government officials with training, research, and consulting services on China's WTO policies. Since January 1, 2001, the Shanghai government has posted new laws in Chinese at [www.shanghai.gov.cn](http://www.shanghai.gov.cn), but not yet in English or another WTO-compliant language.
- **Revisions to Foreign Investment Laws:** The State Council released on April 24, 2001 the revised Implementing Regulations of the PRC Wholly Foreign-Owned Enterprise (WFOE) Law. Under the revised regulations, foreign companies are no longer required to balance foreign exchange, source domestically, use advanced technology, and abide by export quotas. The NPC also passed on March 15, 2001 the amended Law of the People's Republic of China on Equity Joint Ventures, the principal law governing foreign-PRC joint ventures.
- **Pilot Projects in Services:** The PRC government has launched several pilot projects to experiment with allowing foreign investment in previously restricted sectors including telecommunications services and fund management.
- **Intellectual Property Rights:** The State Council has issued a number of policy directives to strengthen anticounterfeiting enforcement work and established a new National Anticounterfeiting Coordination Committee, chaired by State Councilor Wu Bangguo. A judicial interpretation and prosecution guidelines issued in April 2001 establish new and clearer standards for criminal liability in counterfeiting cases. The government will need to ensure that local police and prosecutors have sufficient resources for enforcement. The Shanghai Technical Supervision Bureau established the Shanghai Foreign-Invested Enterprises Anticounterfeit Work Liaison Office in September 2000, the only government office established with the sole purpose of helping foreign companies fight counterfeiters in China.
- **Commodity Inspection & Technical Standards:** China merged its two standards and inspections bodies on April 1, 2001 to form the State Bureau of Quality Supervision, Inspection, and Quarantine (SBQSIQ). China had maintained one inspection regime for imports and another for domestically made goods. The merger represents China's first step toward meeting the demand of its WTO negotiating partners that China unify its inspection regime to ensure national treatment. In the past, the PRC government has used the existence of a separate inspection regime for imports as a non-tariff barrier, particularly against imports of agricultural products. The WTO Technical Barriers to Trade (TBT) Consulting Enquiry Point, a PRC government organization under SBQSIQ, will report on standardization requirements to the WTO and to foreign and domestic companies. The organization will submit to the WTO current PRC technical regulations, standards, quality evaluation procedures, labeling requirements, and other issues that may affect trade with WTO members. Information on the new organization can be found at [www.wto-tbt.gov.cn](http://www.wto-tbt.gov.cn).
- **Customs:** Amendments to China's Customs Law took effect on January 1, 2001. The revisions aim to strengthen the legal framework governing customs activities to bring China's customs systems into line with the international practices embodied in the Kyoto Customs Convention and WTO Customs Valuation Agreement. China's commitment to use transaction value in the amended law brings PRC valuation practices closer to those outlined in the WTO Customs Valuation Agreement, which China has committed to follow as a WTO member.

- **Removal of Non-Tariff Barriers:** MOFTEC removed quotas, licenses, and other special administrative import measures for 21 types of appliances, electronics, medical equipment, and vehicles on January 15, 2001. The announcement marks the eighth time since 1992 that MOFTEC removed non-tariff barriers for various electronic and machinery products.
- **Tariff Reductions:** The State Council reduced average tariffs by 6.6 percent as of January 1, 2001. The cut brings the average import tariff to 15.3 percent moves Beijing closer to fulfilling its basic WTO tariff obligations. Of the cuts, 152 were vehicle-related. Seventy-nine different tariffs on completed vehicles were reduced from 51.38 percent to 44.16 percent on average.
- **Education and Training:** PRC government training programs have been under way since late 1999 at the central, provincial, and municipal levels. Many key personnel have attended at least one one-week course on the WTO. Some senior-level officials have attended month-long courses that cover WTO-related issues, including background on the WTO, information on WTO agreements, and the impact of China's WTO accession on key industries. Courses for the most senior-level officials have covered the actual terms contained in China's bilateral market-access agreements and protocol of accession. Increasingly, Chinese bookstores are prominently displaying books on the WTO, its regulations, and its operating principles. The U.S.-China Business Council is conducting a WTO training program with the Shanghai WTO Affairs Consulting Center. The program uses digital videoconference (DVC) technology to bring the experience and expertise of U.S.-based specialists to an audience of Shanghai government officials, local WTO experts and academics, and business leaders. Topics have included antidumping, trade-related intellectual property rights (TRIPs), technical barriers to trade, and agriculture. DVC facilities have been made available by the U.S. Consulate General in Shanghai and the U.S. Department of State in Washington. U.S. companies are also engaged in their own efforts to train PRC regulators, joint-venture partners, suppliers, and customers on WTO rules and obligations.

#### **For Immediate Release**

#### **UNIQUE LEGAL COOPERATION FUND MAKES GRANTS TO FIVE NEW U.S.-CHINA RULE OF LAW PROJECTS**

(Washington, June 4) A one-of-a-kind fund established by U.S. business to assist vital "rule of law" cooperation between the United States and China has disclosed five new competitive grants to recipients based in the two countries. The bilateral programs slated to receive help from the U.S.-China Legal Cooperation Fund range from the development of legal aid for the indigent to improvement of China's compliance with World Trade Organization requirements after its accession to the WTO.

The U.S.-China Legal Cooperation Fund announced its fifth set of grants since its inception in 1998. The Legal Cooperation Fund is a project of The China Business Forum, Inc., the research and education arm of the U.S.-China Business Council. The Fund's grants will support five new projects to:

- Identify and define the administrative law reforms and laws with respect to transparency that China must enact to comply with WTO requirements that ask members to apply trade laws in a "uniform, fair, and reasonable manner";
- Conduct a workshop and research on freedom of information and open government in China, together with development of program materials for a continuing administrative law program for China;
- Undertake field research in two locales to identify impediments to full implementation of China's labor law;
- Complete a needs assessment for legal aid in Anhui Province and create a criminal investigation and defense manual for Chinese legal aid attorneys; and
- Sponsor a series of interdisciplinary seminars in China on WTO standards, structure, and procedures, focusing on rule of law and conflict resolution in the WTO context.

Legal Cooperation Fund Trustees Chairman Herbert J. Hansell, Senior Counsel at Jones, Day, Reavis & Pogue in Washington, DC, remarked:

"In this fifth round, the Legal Cooperation Fund received 21 innovative, timely, and practical proposals from a wide variety of U.S. and Chinese organizations. The Trustees were particularly gratified to joint U.S.-China proposals submitted principally by Chinese applicants, reflecting the Fund's continuing effort to reach out to Chinese individuals and organizations concerned with the rule of law. The Trustees continued to focus on projects

that would substantially advance cooperation in the legal fields that U.S. and Chinese political leaders identified in the late 1990s, including proposals that will assist China's implementation of its World Trade Organization commitments. The Fund is grateful for the continuing financial support of U.S. corporations and professional firms, which will ensure future U.S. cooperation with China in developing the rule of law."

The following business members of the U.S.-China Business Council, the leading organization of American firms engaged in trade and investment with the People's Republic of China, support the U.S.-China Legal Cooperation Fund: ABB Inc.; AMP Incorporated; American International Group, Inc.; Applied Materials, Inc.; ARCO; Baker & Daniels; Cargill, Inc.; Caterpillar Inc.; China Products North America; The Chubb Corporation; CIGNA Corporation; Citigroup; Coca-Cola Company; Corning Incorporated; Eastman Kodak Company; Eaton Corporation; Emerson; ExxonMobil Corporation; Federal Express Corporation; Ford Motor Company; GE Fund; General Motors Corporation; Honeywell Inc.; Ingersoll-Rand Company; Jones, Day, Reavis & Pogue; Kaye, Scholer, Fierman, Hays & Handler; Lehman Brothers; Merrill Lynch; Microsoft Corporation; Motorola Inc.; Nationwide Global Holdings; Payless ShoeSource; PepsiCo, Inc.; Praxair, Inc.; Timken Company; TRW Inc.; United Technologies Corporation; and Wm. Wrigley Jr. Company.

Information on the Fund may be found at its web site: [www.uschinalegalcoop.org](http://www.uschinalegalcoop.org). The next deadline for submitting applications for Fund grant will be October 15, 2001, with the next set of Fund awards expected about November 30, 2001.

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#### **For Immediate Release**

#### **TRAIL-BLAZING LEGAL COOPERATION FUND SUPPORTS SIX NEW U.S.-CHINA RULE OF LAW PROJECTS**

(Washington, December 11) A unique business-supported fund established to enhance U.S.-China legal cooperation awarded grants in early December to fund six bilateral projects ranging from a long term academic study of the legal aspects of China's upcoming accession to the World Trade Organization to a program to draft a code of ethics for Chinese lawyers.

The U.S.-China Legal Cooperation Fund announced its fourth group of grants following a December 1 meeting of its Board of Trustees. The Legal Cooperation Fund is a project of The China Business Forum, Inc., the research and education arm of the U.S.-China Business Council.

The Fund's grants will support six new projects to:

- Develop a more effective Code of Legal Ethics for the All-China Lawyers Association;
- Study the development of the rule of law, constitutionalism, and judicial independence in China;
- Support the first phase of a long-term academic study of the legal impact on both China and the United States of China's accession to the World Trade Organization;
- Draft a codification system for existing and future Chinese laws to speed legal research by legal scholars and practitioners as well as business and the general public;
- Assist Chinese securities regulators to conduct a study of U.S. civil liability laws within the system of U.S. securities regulations and facilitate teaching U.S. securities laws to Chinese students; and
- Support a program for teaching of U.S. laws at a Chinese law school.

Herbert J. Hansell, Senior Counsel at Jones, Day, Reavis & Pogue in Washington, DC, who chairs the Board of Trustees, commented:

"In this fourth round of grants, the Trustees of the Legal Cooperation Fund considered a number of high quality proposals intended to support and foster bilateral cooperation in the field of law. These grants will direct U.S. private-sector resources to areas of legal cooperation that Presidents Clinton and Jiang articulated in the late 1990s, and also to projects that will help China meet its far-reaching WTO commitments. The U.S. businesses that created and support this Fund believe that U.S. cooperation with China in developing the rule of law will yield specific, significant, and long-lasting benefits to the citizens of both countries."

The U.S.-China Legal Cooperation Fund is supported by the following business members of the U.S.-China Business Council, the leading organization of American firms engaged in trade and investment with the People's Republic of China: ABB Inc.; AMP Incorporated; American International Group, Inc.; Applied Materials, Inc.; ARCO; Caterpillar Inc.; China Products North America; CIGNA Corporation; Citigroup; Coca-Cola Company; Corning Incorporated; Eastman Kodak Company; Eaton Corporation; Emerson Electric Company; ExxonMobil Corporation; Federal Express Corporation; Ford Motor Company; GE Fund; General Motors Corporation; Honeywell Inc.; Ingersoll-Rand Company; Jones, Day, Reavis & Pogue; Kaye, Scholer, Fierman, Hays & Handler; Lehman Brothers; Merrill Lynch; Microsoft Corporation; Motorola Inc.; Nationwide Global Holdings; Payless ShoeSource; Praxair, Inc.; Timken Company; United Technologies Corporation; and Wm. Wrigley Jr. Company.

Information on the Fund may be found at its web site: [www.uschinalegalcoop.org](http://www.uschinalegalcoop.org). The next deadline for submitting applications for Fund grant will be April 16, 2001, with the next set of Fund awards expected about May 31, 2001.

—END—

Chairman CRANE. Thank you, Mr. Kapp, and hopefully this is the last time that we go through this procedure.

Mr. Cohen.

**STATEMENT OF CALMAN J. COHEN, PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE**

Mr. COHEN. Mr. Chairman, Mr. Levin, members of the Committee, I am Calman Cohen, the president of Emergency Committee for American Trade (ECAT), an association of the chief executives of major American companies with global operations. In the view of ECAT members, the annual extension of NTR with China is critical to maintaining commercial engagement with China and to ensuring that America fully benefits from the completion of China's negotiations to enter the WTO. The engagement policy, I hasten to add, is not an invention of the post-World War II era or even the last century. It only resumes the NTR treatment that the United States and China first accorded each other back in 1944. That status was first suspended, or was suspended after a hundred years in about 1951, until China formally enters the WTO. When the President authorizes the extension of PNTR, this Committee, which has played a key role in promoting the engagement policy at the end of the 20th century, will be called upon to reaffirm our longstanding policy of commercial engagement with China.

I am here to ask you to stay the course one more year. Nothing has fundamentally changed since last year's debate. As you have heard already this afternoon, if we look at our primary interest as a nation, commercial, humanitarian, national security, it is clear that continued engagement and an extension of NTR status are in the United States' interest. Make no mistake, commercial engagement, NTR, PNTR, are not panaceas. They do, however, put us on the most productive road to achieving our country's broad interests.

On the other side of the equation is the Disapproval Resolution, H. J. Res. 50. Passage of that resolution will not advance U.S. interests. I will suggest it will undermine them. Terminating NTR with China will significantly harm U.S. commercial interests. For example, the imposition of Smoot-Hawley level tariffs would raise

the price of U.S. imports, equaling an approximate \$245 tax increase on the average U.S. family. Nor will the termination of NTR with China result in any appreciable improvement in China's respect for human rights. While many of China's domestic policies conflict with our values as Americans, effectively cutting off our commercial relations will not change these policies for the better. Indeed, many of those who have dedicated their lives to promoting reform within China believe that U.S. commercial engagement is one of our best tools for helping to promote our humanitarian interests in China, including greater openness, the rule of law, the respect for human rights and the alleviation of poverty.

Finally, there is the issue of our national security interests. Terminating NTR with China will have significant repercussions throughout Asia that will undermine U.S. interests in the region. Importantly, it could strengthen China's hard-liners, who will cite our termination of NTR as proof of American hostility, and will undermine our ability to use dialog and other means to promote greater stability and security throughout the region from the Taiwan Strait to the Korean Peninsula.

In conclusion, China's eventual accession to the WTO will not of course be the end of the process as you, Mr. Levin, and others have suggested. China will not magically be transformed overnight or in a year. We must work on the ground in China to promote the change that China's WTO accession promises. We will also need your help, with that of the administration, to ensure that China fully implements its commitments.

In particular, it will be critical to fund fully the commercial, labor, legal system and civil society programs that were promoted by Congressmen Levin and Bereuter and authorized by last year's United States-China Relations Act. We strongly support also full funding for the efforts of the U.S. Trade Representative and the Department of Commerce to monitor and ensure full implementation of our trade agreements.

In sum, renewal of NTR with China and the rejection of H.J. Res. 50 will continue the policy of commercial engagement that has benefited the United States not only in the last quarter century, but also since our original agreement with China on NTR in 1844. We cannot resolve all of our diverse concerns with China on the back of trade, but we can make simple progress on all of our interests as Americans by staying the course and continuing our commercial engagement with almost one-fifth of the world's population.

Thank you once again for this opportunity to testify.

[The prepared statement of Mr. Cohen follows:]

**Statement of Calman J. Cohen, President, Emergency Committee for American Trade**

I am Calman Cohen, President of the Emergency Committee for American Trade—ECAT—an association of the chief executives of major American companies with global operations. ECAT was founded more than three decades ago to promote economic growth through expansionary trade and investment policies. Today, ECAT's members represent all principal sectors of the U.S. economy—agriculture, manufacturing, merchandising, processing, and services. The combined exports of ECAT companies run into the tens of billions of dollars. The jobs they provide for American men and women—including the jobs accounted for by suppliers, dealers, and subcontractors—are located in every state and cover skills of all levels. The an-

nual worldwide sales of ECAT companies exceed \$1.5 trillion, and they employ approximately 4.5 million people.

I am here today to address one of ECAT's top priorities: the annual extension of Normal Trade Relations (NTR) with the People's Republic of China that is critical to maintaining commercial engagement with China and to ensuring that America fully benefits from the completion of China's negotiations to enter the World Trade Organization (WTO).

***COMMERCIAL ENGAGEMENT HAS BEEN A CORNERSTONE OF U.S. POLICY TOWARDS CHINA***

Commercial engagement with China has been the cornerstone of U.S. policy toward China for the last nearly quarter-century, since the historic 1979 Agreement on Trade Relations Between the United States of America and the People's Republic of China. This agreement authorized by the Jackson-Vanik amendment of the Trade Act of 1974 and approved by Congress after its completion, committed the United States and China to accord each other NTR treatment with respect to goods and certain other issues. Every President since 1980 onward—starting with President Reagan and continuing with Presidents Bush, Clinton and now President George W. Bush—has sought and obtained the annual renewal of China's NTR status.

In fact, this policy is not an invention of the post-World War II era or even the last century. It only resumes the NTR treatment that the United States and China first accorded each other under the 1844 Treaty of Wanghia—that was only suspended in 1951.

This Committee has played a key role in promoting this policy at the end of the 20th Century. Starting in 1990, when the first resolution disapproving China's NTR status was introduced in the House, this Committee has voted 11 times on a disapproval resolution. This Committee has also considered related legislation on China's NTR status on several other occasions.

Most importantly, however, this Committee led the effort last year to authorize the President to extend permanent normal trade relations to China upon its accession to the WTO on terms substantially similar to those agreed in the November 1999 U.S.-China bilateral market access agreement. ECAT is very grateful for your historic efforts that we hope will soon reach fruition.

The time is drawing near when we will be able to restore fully the commercial relationship with China that we began in 1844. Following the Administration's successful negotiations in Shanghai in early June and the recent Working Party meeting in Geneva, there remain few issues left to resolve as part of China's negotiations to enter the WTO. Once negotiations are concluded in the Working Party, the ministerial work of the WTO will continue in finalizing the protocol of accession, the working party report and consolidating the schedules containing China's market-access commitments. When that process is complete, the Working Party must report China's accession by consensus, which will be followed by a vote (or, as in all past accessions, a unanimous decision) of the General Council. Once China's entry is approved, Taiwan's entry will also be approved. China and Taiwan will then, of course, have to ratify the decisions and will formally accede to the WTO third days thereafter.

In joining the WTO, China will merely resume the role that it played more than half a century ago: China was one of the forty-four participants in the 1944 Bretton Woods Conference. It served on the Preparatory Committee that wrote the charter for the International Trade Organization (ITO) that was to complement the International Monetary Fund and the International Bank for Reconstruction and Development. China was also one of the twenty-three original Contracting Parties to the General Agreement on Tariffs and Trade, initially created to be an interim arrangement until the ITO Charter would come into force, which it never did.

In China, however, revolution intervened. The government of Taiwan notified the GATT on March 8, 1950, that it was terminating China's membership. It was only in 1986 that the People's Republic of China officially sought to rejoin the GATT, now the World Trade Organization. And now, after 15 years of negotiations, China is poised to enter the organization that it originally worked to create.

***THE ANNUAL NTR DEBATE***

Until China formally enters the WTO and the President authorizes the extension of Permanent Normal Trade Relations, this Committee will be called upon to reaffirm our longstanding policy of commercial engagement with China. I am here to ask you to stay the course one more year.

In 1990, I and a number of my colleagues in the business community formed the Business Coalition for U.S.-China Trade, an umbrella organization of associations and companies interested in promoting commercial engagement with China. ECAT

and the Business Coalition supported the annual extension of NTR every year and worked with all of you to support last year's historic vote on PNTR. On June 5, seventy business associations sent a letter to the President and the House and Senate Leadership on the importance of NTR renewal. That letter is attached. The Business Coalition will soon be sending a letter to every member of the House asking for his or her support of NTR with China.

You are all familiar with the issues surrounding this debate. Last year, Congress engaged in an extensive debate on the value of continued commercial engagement and Permanent Normal Trade Relations. At the end of the day, Congress voted to stay the course of commercial engagement and authorized the President to extend PNTR at the appropriate time.

***Continued Commercial Engagement and the Extension of NTR Are in the United States' National Interest***

Nothing has fundamentally changed since last year's debate. If we look at our primary interests as a nation—commercial, humanitarian and national security—it is clear that continued engagement and an extension of NTR status are in the United States' interest.

1. **Commercial Interests:** China's accession to the WTO will open markets for every major sector of the U.S. economy and will provide a multilateral mechanism for the resolution of disputes under the WTO agreements. The U.S.-China bilateral agreement from November 1999 and subsequent negotiations establish a comprehensive package for removing major trade barriers in all major sectors of the economy. I will list only a few of the highlights.

- *Agriculture:* The bilateral agreement provides expanded market access for U.S. wheat, corn, soybeans, cotton, barley, and rice under a new system of tariff-rate quotas, reduces Chinese tariffs on priority products such as beef, citrus, and dairy from over 30 percent to 12 percent, and eliminates Chinese export subsidies. The recent negotiations in Shanghai resulted in China's commitment to limit substantially its use of domestic agricultural support.
- *Manufacturing:* The bilateral agreement cuts Chinese tariffs from the current overall average of 24.6 percent to 9.4 percent, including major tariff reductions on the farm products noted above. In the auto sector, China agreed to reduce its current 80 to 100 percent tariffs on autos to 25 percent and to reduce tariffs on auto parts from 23 percent to 10 percent. China also will join the WTO's Information Technology Agreement (ITA) that will require China to reduce its tariffs on computers, semiconductors, telecommunications, and other high-technology products to zero.
- *Services:* As a result of U.S. negotiations, China has agreed to provide comprehensive market access for U.S. telecommunications and financial services under the WTO Telecommunications and Financial Services Agreements. China has made specific market-access commitments in all services industries of primary interest to the United States, including the Internet, audio-visual, banking, insurance, securities, and auto finance. U.S. publishing and information services also will benefit from China's commitment to remove restrictions on distribution and to reduce restrictions on investment.

The Congressional Research Service has projected that China's accession would increase annual U.S. exports by \$11.5 billion by 2005. The U.S. Department of Agriculture estimates that U.S. farm exports would grow by \$2.2 billion annually as a result of China's WTO accession.

It is to the U.S. advantage to be able to have China enter into binding market-access commitments that are enforceable under WTO dispute settlement procedures, rather than have to enforce existing bilateral agreements unilaterally and in a piecemeal fashion. The longer China's WTO accession is delayed, the more business opportunities are lost for U.S. suppliers and the greater the pressure within the United States to impose unilateral, trade-disrupting measures against China.

More broadly, our continued commercial engagement, renewal of NTR and China's accession to the WTO will help deepen and accelerate China's own market reforms. Indeed, bringing China into the WTO will help to address our rising trade deficit with China, as China will have to reduce its high tariffs and eliminate quotas and other major market-access barriers.

As documented in ECAT's *Global Investments, American Returns (GIAR)* and ECAT's *1999 Update*, the continued commercial engagement and investment of American companies around the world has *complemented*, rather than substituted for, economic activity in the United States in areas determinative of productivity, such as research and development and capital investments. In addition, over 70 percent of the total income earned by the foreign affiliates of U.S. firms is repatriated.



This in turn has promoted economic growth and a higher standard of living in the United States. And contrary to the speculation of some critics, U.S. companies with global operations have increased overall U.S. employment, not reduced it.

The cost of another extension of China's Normal Trade Status is small indeed. Only six countries are currently denied NTR status—Afghanistan, Cuba, Laos, North Korea, Serbia and Montenegro and Vietnam—with the last likely to regain that status later this year. One hundred and fifty-two countries receive even more favorable access to the U.S. market than NTR through the NAFTA, the U.S.-Israel Free Trade Agreement, the Generalized System of Preferences program, the Caribbean Basin Initiative, the Andean Trade Preferences Act and the African Growth and Opportunity Act.

There is no question that continued commercial engagement and the extension of NTR with China are in our commercial interest.

**2. Humanitarian Interests:** Continued commercial engagement, including the renewal of NTR, is also one of our best tools for helping to promote our humanitarian interests in China, including greater openness, the rule of law, the respect for human rights and the alleviation of poverty. These are not simple issues that can be resolved from one day or even one year to the next. Nor can they be achieved through one simple vote—up or down on the renewal of NTR. Yet, the evidence shows that increased commercial engagement—not isolationism, has fostered greater reform and progress on these issues as well. For those of you who have visited China over the last two decades, you have witnessed the immeasurable changes that greater commercial engagement and contact with U.S. companies have had.

China's accession to the WTO will also help strengthen progress towards greater transparency and the rule of law in China's legal system. While the rule of law work will begin in the commercial sector, it is certainly our government's policy—in large part through the PNTR legislation that you drafted last year—to help promote greater adherence to the rule of law in other areas as well.

U.S. companies operating in China bring with them their values and their standards on everything from worker safety to the environment. The benefits of this engagement are inestimable in terms of their ability to promote a better way of life for the Chinese people.

As the World Bank and others have documented, it is precisely through increased trade and economic growth that developing countries are better able to reduce poverty and improve standards, including on issues such as the labor and environment. Since World War II, the liberalization of trade has produced a six-fold growth in the world economy and a tripling of per capita income and enabled hundreds of millions of families to escape from poverty and enjoy higher living standards. A recent World Bank study shows that developing countries that participate actively in trade grow faster and reduce poverty faster than countries that isolate themselves. In the 1990s, per capita incomes grew 5.1 percent in developing countries with high trade and investment flows, while more isolated countries saw incomes decline by 1.1 percent.

Make no mistake, commercial engagement, NTR, and PNTR are not panaceas. They do however, put us on the most productive road to achieving our country's broader humanitarian goals.

**3. National Security Interests:** Our national security relationship with China has obviously been on the front burner recently, particularly with the downing of the EP-3 aircraft. I profess no expertise on the issue, but defer to the statement of our Secretary of State, Colin Powell, on the importance of NTR renewal for U.S. national security interests as well:

“China's increasing engagement with the outside world makes it easier to work with that country on maintaining peace and stability in the Asia-Pacific region and combating alien smuggling, HIV/AIDS, narcotics trafficking, financial crimes, terrorism and environmental degradation. . . . [I]t is fundamentally in our national interest to extend normal trade relations.”  
Colin Powell, “The Promise of China Trade,” *Washington Post* (June 1, 2001).

Like our humanitarian interests, we must continue to address our national security concerns in other venues as well, while recognizing that continued commercial engagement and the extension of NTR with China will also help to promote those very same interests.

***Passage of the Resolution Disapproving China's NTR Status Will Undermine U.S. Interests***

On the other side of the equation is the disapproval resolution, H.J. Res. 50, which this Committee and the full House will be asked to vote on this year. Passage

of that resolution will not advance U.S. interests; it will undermine them. Let us consider the same three primary U.S. interests—commercial, humanitarian and national security.

1. **Commercial Interests:** Terminating NTR with China will significantly harm U.S. commercial interests. The imposition of Smoot-Hawley level tariffs would raise the price of U.S. imports, equaling an approximate \$245 tax increase on the average U.S. family, with a disproportionately large effect on working and low-income households. Higher priced imports will raise the relative production costs for U.S. companies, impairing their ability to compete effectively with foreign companies that face no similar price increase. At the same time, termination of NTR can have only a negative effect on U.S. exports as China has little impetus to open its market to U.S. goods. In addition, as NTR is reciprocal, U.S. exports will face higher tariffs than those imposed on the exports of our principal foreign competitors. As a result, the loss of NTR would put in jeopardy many of the hundreds of thousands of U.S. jobs that are supported by our trade with China.

The net effect is a loss for U.S. businesses, their workers and their families.

2. **Humanitarian Interests:** Nor will the termination of NTR with China result in any appreciable improvement in China's respect for human rights. While many of China's domestic policies conflict with our values as Americans, effectively cutting off our commercial relations will not change those policies for the better. Indeed, many of those who have dedicated their lives to promoting reform within China believe that reducing U.S. involvement in China will have the opposite effect.

The net effect is a loss for the Chinese people.

3. **National Security Interests:** Finally, there is the issue of our national security interests. Terminating NTR with China will have significant repercussions throughout Asia that will undermine U.S. interests in the region. The most direct effects will be felt in Hong Kong and Taiwan, which stand to lose over a hundred thousand jobs and billions of dollars in exports if the United States terminates NTR. Even more importantly, it will strengthen China's hardliners, who will cite our termination of NTR as proof of American hostility, and will undermine our ability to use dialogue and other means to promote greater stability and security throughout the region, from the Taiwan straits to the Korean peninsula.

The net effect is a loss for the Asia-Pacific region and our own security interests.

#### **THE ROAD AFTER ACCESSION**

China's eventual accession to the WTO will not, of course, be the end of the process; China will not magically be transformed overnight or in a year. We are pragmatic people and know that we must work on the ground in China to promote the change that China's WTO accession promises. We will also need your help with that of the Administration to ensure that China fully implements its commitments. In particular, it will be critical to fund fully the commercial, labor, legal system and civil society programs authorized by last year's U.S.-China Relations Act. Similarly, we strongly support full funding for the efforts of the United States Trade Representative and the Department of Commerce to monitor and ensure full implementation of our trade agreements.

#### **CONCLUSION**

In sum, renewal of NTR with China (and the rejection of H.J. Res. 50) will continue the policy of commercial engagement that has benefited the United States, not only in the last quarter-century, but also since our original agreement with China on NTR in 1844. We cannot resolve all of our diverse concerns with China on the back of trade, but we can make considerable progress on all of our interests as Americans by staying the course in continuing our commercial engagement with almost one-fifth of the world's population.

I appreciate the opportunity to appear before you today on behalf of ECAT.

*June 5, 2001*

The Honorable J. Dennis Hastert  
Speaker  
U.S. House of Representatives  
H-232 of the Capitol  
Washington, D.C. 20515

Dear Speaker Hastert:

We urge your continued strong leadership on a bipartisan basis in extending normal trade relations with China in order to allow completion of negotiations to bring China and Taiwan under the rules of the global trading system.

Last year, in the most important trade vote in six years, Congress enacted historic legislation authorizing the President to approve Permanent Normal Trade Relations (PNTR) with China upon completion of negotiations over China's application for WTO membership. Because the WTO negotiations have taken longer than expected, in part because of America's insistence that China join on sound commercial terms, Congress is likely to be forced again to vote on whether to disapprove the President's annual extension of NTR. If Congress terminates NTR, prohibitive Smoot-Hawley tariffs would be imposed on Chinese goods. Unlike PNTR, the upcoming NTR vote is the trade equivalent of an "extender" designed to maintain the status quo, pending completion of a WTO agreement.

In approving PNTR, the House and Senate reaffirmed a quarter-century of bipartisan U.S. policy, which has recognized that U.S. commercial engagement is America's best tool for advancing economic freedom and the rule of law in China, supporting vital U.S. national security interests in Asia, and maintaining Taiwan's prosperity and security. While, like all Americans, we are concerned by recent developments in U.S.-China relations, revoking NTR would be the wrong response, with devastating consequences for U.S. security, jobs, exports, and consumers.

We appreciate your strong leadership in advancing American trade. We look forward to working closely with you and the bipartisan House and Senate leadership to extend NTR and wrap up a WTO agreement to open China's markets to American goods, services, and farm products.

Sincerely,

AeA, Advancing the Business of Technology; Aerospace Industries Association; American Apparel and Footwear Association; American Chamber of Commerce in China; American Chamber of Commerce in Guangdong; American Chamber of Commerce in Hong Kong; American Chamber of Commerce in Shanghai; American Chamber of Commerce in Taipei; American Chemistry Council; American Council of Life Insurers; American Crop Protection Association; American Farm Bureau Federation; American Feed Industry Association; American Forest & Paper Association; American Insurance Association; American Meat Institute; Asia-Pacific Council of American Chambers of Commerce; Association of American Publishers; Automotive Trade Policy Council; Biotechnology Industry Organization; The Business Roundtable; California Council for International Trade; Coalition for Employment Through Exports; Coalition of Service Industries; Computer Systems Policy Project; Distilled Spirits Council of the United States; Electronic Industries Association; Emergency Committee for American Trade; Food Marketing Institution; Footwear Distributors and Retailers of America; Grocery Manufacturers of America; Idaho Barley Commission; Information Technology Industry Council; International Dairy Foods Association; International Insurance Council; International Mass Retail Association; National Association of Manufacturers; National Cattlemen's Beef Association; National Chicken Council; National Council of Farmer Cooperatives; National Electrical Manufacturers Association; National Food Processors Association; National Foreign Trade Council; National Oilseed Processors Association; National Pork Producers Council; National Potato Council; National Renderers Association; National Retail Federation; National Turkey Federation; National Venture Capital Association; Pharmaceutical Research and Manufacturers of America; Rice Millers' Association; Semiconductor Equipment and Materials International; Semiconductor Industry Association; Snack Food Association; Software and Information Industry Association; Telecommunications Industry Association; Toy Industry Association; USA Engage; USA Poultry & Egg Export Council; United States Association of Importers of Textiles and Apparel; United States-China Business Council; U.S. Apple Association; U.S. Chamber of Commerce; U.S. Council for International Business; U.S. Dairy Export Council; U.S. Rice Producers' Group; Washington State China Relations Council; Wheat Export Trade Education Committee; Western U.S. Agricultural Trade Association

Chairman CRANE. Thank you, Mr. Cohen. Mr. Stallman, you mentioned in your testimony that China committed to cap its domestic support at 8.5 percent of production value, and yet the current subsidies are only 1 to 2 percent. I don't get it. I mean, 5 percent was the target we were trying for. What was their interest in that arbitrary 8.5 percent?

Mr. STALLMAN. And that is a good question, because we were asking the same one. We would like to have held it at 5. They are very limited in their ability to provide domestic support.

Chairman CRANE. I was going to say, but how could they afford 8.5?

Mr. STALLMAN. Well, we don't think they will, but in discussions with particularly some of the Chinese officials here in Washington it was an issue of, I guess, saving face with their countryside, with their farmers in the country. Even with that 8.5 percent, the total so-called amber box type spending levels, we still have a greater level under the WTO than what the Chinese will at the 8.5 percent because we had some previously during the General Agreement on Tariffs and Trade, GATT, round.

Chairman CRANE. Yeah. Mr. Benanav, how open will China's insurance market be after its commitments are phased in?

Mr. BENANAV. The agreement provides that anyone who meets prudential tests is permitted to apply and receive a license. If you have an operating history of being a good insurance company and are in sound financial condition, you are eligible for a license. Over a 5-year period the entire country will open up in phases. So I would say within 5 years it will be an open market just as you see in Hong Kong or other places. The only restriction that American and other companies will have is they will have to operate as joint ventures, with American companies being permitted to own 50 percent of the joint venture under the current agreement, whereas in other places, in Hong Kong for example, we can own 100 percent of the company.

Chairman CRANE. Mr. Kapp, last week the Washington Post reported that President Jiang Zemin for the first time opened Communist Party membership to entrepreneurs and private businesses who have previously been disparaged as capitalists. Based on your extensive knowledge of China, do you believe this was a significant change in policy and, if so, why?

Mr. KAPP. Well, it was certainly a controversial one, which has initiated some very heavy criticism within China, because it seems to fly in the face of fundamental Marxist-Leninist dogma. I think the leadership understands that the dynamism in the Chinese economy today resides in the non-State sector. That is where the jobs are being developed. That is where the technical innovation is coming from. That is where the aspirations of those who are eager to make more of their lives are being focused. The Party leaders can see this for themselves. They would rather have within their ranks that most dynamic segment of a society in profound transition than try to keep it at arm's length.

There is potentially something of a parallel from the forties, which I hope doesn't happen this time. In the forties the then gov-

erning party and ruling party in China, the Nationalist Party, had a way of muscling its way into any business that was making progress and had not yet fallen under party control. In other words, in those terrible years a lot of businesses were driven into, destruction by the intrusions of the ruling party, and one doesn't want to see that happen again in China. Nor does one want to see, a kind of resurgence of privileged, wealthy elites and exploitative political elites in a way that is profoundly reactionary.

But I don't really think the circumstances are that similar now. I think the party is facing reality. This is where the enthusiasm and the dynamism is in the society. The entrepreneurs who are now joining, however, are joining for very instrumental reasons. They see, membership in the party as a useful way to ensure certain kinds of favorable behavior from the State or to insulate themselves perhaps from some of the unfavorable behaviors that the State could otherwise bring down on them. So it is a little bit of an insurance policy, and that is not always going to be to our liking either.

Chairman CRANE. Mr. Cohen, currently what is the most difficult challenge to doing business in China and how will China's accession to the WTO help to resolve these challenges?

Mr. COHEN. I would think one of the most difficult challenges—

Chairman CRANE. Wait, your mike isn't on.

Mr. COHEN. Mr. Chairman, I think one of the most difficult challenges will be in the agriculture sector. Given that approximately 50 percent of China's population is agrarian, I think there will be a great deal of pressure against the Chinese to fully implement their various commitments to open their agricultural sector. It will require constant attention from the U.S. Government with regard to their regulations in the area of sanitary and phytosanitary areas. As a result, I would think that in terms of the WTO, we will need to work with the Chinese to try to ensure that they put in place the systems that will allow their various agrarian sectors to comply with the commitments that China made to become a member of the WTO. I don't think this is going to be achieved overnight. There will be cases where we will need to avail ourselves of the WTO dispute settlement, but I would hope that we would instead in as many cases as we possibly can provide the resources that are called for in the legislation passed by the Congress last year to provide education, training, technical assistance so the Chinese can follow through.

Chairman CRANE. Thank you. Mr. Levin.

Mr. LEVIN. Thank you and welcome to all of you. We have enjoyed your testimony. I think it may be a bit more nuanced than it might have been some years ago. I am not sure. But I think some progress has been made in this debate we have been having here, and I think there is a broader agreement about not looking at China in kind of cut and dried, either/or terms, and a realization that the journey ahead is going to be a difficult one for them and a difficult one for us, that there will be competition as well as market access. I think, Mr. Stallman, your testimony kind of evidences that.

The argument about subsidization in a sense was theoretical, but I think in a sense wasn't. We probably should learn from the recent experience between Japan and China that China will be a competitor as well as a purchaser, and that may well be true of agriculture. And that may not be true, United States-China, for 15, 20 years. It is slightly true now, I think. But maybe that is what the fighting was all about. And I think it also is illustrated in your comment, which is fairly stark, on the last page about the bio-engineering, about biotech standards. It is not a subject of little controversy elsewhere. And I think when you say without such clarification China should not be allowed entry into the WTO, that is a pretty strong statement, and I agree we need to iron that out.

I think, therefore, this debate has helped us to realize that when we look at China, again, it is not just a place where we will sell goods. It is a place with which we will be increasingly competing in higher tech goods and probably in agriculture. There isn't much competition now, but it is foreseeable that will occur 5, 10 years from now, isn't it?

Mr. STALLMAN. Well, with respect to agriculture, we have always contended that it would be difficult, as Mr. Cohen indicated, to be sure that they actually implement the agreement. There will be some sectors, some agricultural products where the Chinese will be competitive. Look at the apple juice concentrate issue right now. I mean, that is just one. On the other hand, some of the things they have agreed to do upon accession, eliminating export subsidies, that has been a bone of contention with EU for years and they have agreed to do it with their agricultural products, so that will impact.

So, yes, it will be a give and take over time. It is not a one-way magic bullet. But on balance having access to that market for American agriculture is extremely important. They only have roughly 7 percent of the arable land in the world, versus more than 20 percent of the population and growing, so that right there is a natural resource cap on production.

Mr. LEVIN. Even the word "balance" has come into play in discussing a relationship. And Mr. Cohen, I think you also highlighted it. Mr. Kapp and I have talked about this a lot, the whole implementation process, and I do hope that everybody will work hard to realize this is closer to the beginning than it is the end. And this is true in terms of our full economic relationship in terms of human rights issues, in terms of other economic related issues, and we have a lot of work to do. I hope that all of you will be as active from here on in as you have been active in securing PNTR when it comes to appropriations for the various departments in terms of implementation for the Commission, really for everything, because the three times I have been in China, I think you feel change, but you also feel rather age old traditions, including a very weak rule of law.

Also, I think the comment, Mr. Benanav, of yours is so right, and I think when you talk about implementation, now just I will just kind of end where I began. I notice when you read win-win you modified it a bit. Because I just don't think we can tell people in this country that a trade proposition is win-win and there be no losers and no problems, it is all one way, it is easy street. That

isn't the way competition works within the United States. I think the last years have shown there are winners and losers, including some people whose stock is now worth 2 cents on the dollar, and I think we have to expect an international competition. There are going to be winners and losers, especially as we compete with countries that have very different structures.

Mr. Kapp, your burden, to some extent the rest of you, has been to work with a relationship involving a country that is at a very, very different point than we are, and I think if we don't acknowledge it as well as the change that is occurring within, we are not only fooling ourselves, even worse, we are fooling our constituents. They know better. Anyway, on this last hearing date, thanks for joining us. Hasta la vista somewhere else.

Chairman CRANE. Mr. English.

Mr. ENGLISH. No.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. And to all of the panels, thank you very much for your testimony, quite often I must say. If I could ask Mr. Kapp, because I am glad you veered from your text and you spoke from your heart, and eloquently so, as you have in the past. Could you give me a sense of how we should contextualize what has happened in the past year with China and the incidents that our public, our constituents read about, hear about? How do we frame the debate for a public which only hears about China based on what it sees on the evening news or reads in the upper fold of the newspaper, which for the most part has not been good? And how do we—give me a sense of how we try to convey to them the import of what you all have just said.

Mr. KAPP. Well, Congressman, it is really a problem. A couple of days ago the New York Times did a 30-inch column story about the fact that the people in China eat dog. And right in the middle of this very long report, accompanied by pictures of dog hindquarters boiling in pots, and so forth, was a little box, no more than three column inches, which said "China to try U.S. scholar."

I actually wrote to the Times about it and tried to say, "The story that some Chinese people eat things that American people consider repugnant goes all the way back to the 1870s. There is a whole tradition, in California above all, as you probably know, of this. And you demean the story of the scholars who have been indicted and are to be tried by putting it in as a little box where the overall message is, 'Ain't it awful! The Chinese do these terrible things: they are really beyond the pale; they eat dog and they are bad to U.S. scholars.'"

I have a real problem with this. It is not for a minute to say that the American media should go out and portray everything in China as sweetness and light. And actually as someone who reads the media, the major national media, very, very carefully, I would say that the last couple of years have actually shown some improvement in the media's treatment of complex realities in China, many of which are very tough. Life is tough over there for a lot of people. It is also exciting for a lot of people. But, I think that, for those of us who understand that it is not as simple as "Ain't it awful—the Chinese eat dog meat," (or who remember that Americans eat pork and beef, which offends the sensibilities of many Muslims,

Jews and Hindus around the world), all we can do is try, without allowing ourselves to be nailed as apologists for Beijing, to point out that China has tough, huge burdens and challenges and that governing it is a very difficult matter, and to point where we can to stories that convey a balance and a balance of experience.

Now, American business, I might say, is pretty good at that, and the majority of American businesspeople if they ever were in the realm of painting rosy pictures—are way beyond that today. I could bring in 15 people and sit here and give you very interesting, balanced stories about the good and bad, the pros and the cons, the achievements and the failures. That is what we need. China is not that different from any other country in this regard. But it is a long battle and I for one find it exhausting, but also necessary.

Mr. BECERRA. Mr. Benanav, let me ask you a question now. Congressman Tanner asked Mr. Bader a question regarding services. Right now, of our exports to China very little is in the form of services and if indeed Europe is moving forward with financial services agreements with China, that may to some degree block us out unless it is totally open market, and I don't think that we quite get there. What is your sense about our opportunities in the financial services area to make some inroads into China, given that we need to compete obviously with the Europeans and others?

Mr. BENANAV. Right. The Chinese economy is at a point where it needs a much broader financial sector in order to fuel the growth that they need. American companies and European companies to a large extent have expertise that the Chinese absolutely have to have if they are going to create a vibrant capital market, if they are going to create infrastructure funds to help grow. It is a place where we have a significant competitive advantage, and our opportunity to go into those markets and bring that expertise for both our own benefit as U.S. companies and for the benefits of the Chinese people and Chinese economy really represent a unique opportunity. This is not a case where we are transferring American jobs to China. This is financial services for the Chinese people. Most of the employees are Chinese and some are American expats.

So this really is a sector, one of the few sectors maybe, where we can say we have an opportunity to win with very little risk of losing anything, and that is why the service industry is so eager to get into China, because the longer the delay the less our competitive advantage will be because the Chinese themselves, very smart people, are taking every opportunity they can to develop that expertise and maintain the businesses under Chinese ownership and we are eager to get in there. We believe the market is going to be large enough so that the pie will be ever growing and there is plenty of room for American, European and Chinese companies.

An example I use is Hong Kong, with a population of 6 million people, has over 40 life insurance companies. How many companies can a billion two hundred million people support? The U.S. has about 2,000 life insurance companies, which may be too many, but there is plenty of room for a lot of companies in China providing financial services.

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

Chairman CRANE. Well, we want to thank you all again for your participation and your ongoing participation, Mr. Kapp, too, for so



many years, and with all due respect, we do hope this is the last time we ask you to come testify, and with that our hearing stands adjourned.

[Whereupon, at 4:12 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

**Statement of the Hon. James A. Kelly, Assistant Secretary of State for East Asian and Pacific Affairs, U.S. Department of State**

I appreciate the opportunity to comment on U.S.-China ties. This is perhaps America's most challenging and complex relationship. Successful management of U.S.-China relations is vital to our peace, prosperity and security—and that of our allies. A key to that success will be continuing Normal Trade Relations for China. It is an integral part of our efforts to bind China to acceptable international standards of behavior.

Our relationship with China is based, first and foremost, on America's national interests. We will engage and cooperate with China where we can—for example on Korea and South Asia—and compete with or vigorously oppose China where we must—such as on human rights and nonproliferation. As Secretary Powell said, “We will treat China as she merits. China is a competitor and a potential regional rival, but also a trading partner willing to cooperate in the areas where our strategic interests overlap. China is not an enemy and our challenge is to keep it that way.”

We will also consult with our allies and friends in the region. They stand at the forefront of America's Asia-Pacific policy and I believe they want a strong and reliable U.S. role in the region and at the same time, a productive relationship with their largest neighbor.

If we are to be successful in promoting and protecting our national interests and in working with our friends and allies, then we must find a way to deal with the contradictions of a changing China—a country that at times embraces globalism and at other times encourages intense nationalism, a country that wants to join the world trading system but also keeps in place protectionist barriers.

We can best do this by holding China to its bilateral and international commitments. If China chooses to disregard those obligations in areas as diverse as security, human rights, nonproliferation and trade, we will use all available policy tools to persuade it to move in more constructive directions.

The cutting edge of reform and positive social development in China is our trade relationship. As the President said, “Open trade opens minds.” Economic growth spurred by freer markets leads to greater integration with global economic, trade and information systems. In the process, the marketplace will promote American values, just as trade will, I believe, encourage more freedom and individual liberties. You can already see that happening today in China, where trade has led to greater openness, more competition, more choice, greater job opportunity—and fewer government controls on day-to-day life, particularly in the coastal regions most affected by international trade. Greater access to China's markets will also promote opportunity for American business, labor and agriculture providers and give American consumers more and better choices with regard to the products they purchase. For all these reasons, we urge the Congress to reject H.J. Res. 50.

We do not claim that trade alone will remake China in the near term or that it is the single most critical element in the dynamic change that has taken place these last 20 years in the PRC. But trade has been an important part of this process because it exposes many Chinese to a world in which competition and choice inform and transform basic decision-making.

For the same reasons—that is, enhancing our peace and prosperity, furthering America's and our allies' interests and helping transform China—the President plans to attend the APEC leaders meeting in Shanghai in the fall and then travel to Beijing. His presence will speak volumes about our commitment to regional prosperity and market-oriented economic reform in China.

Taiwan is important and this Administration has been clear about the importance we attach to our unofficial relationship with Taiwan and the admiration with which we view the progress made in Taiwan over the past 20 years. The President made clear in his discussion of our recent arms sales package that, as set forth in the Taiwan Relations Act, we will continue to “make available to Taiwan such defense articles and services” as are required to enable Taiwan to defend itself. We have informed the Chinese that military build-ups, especially of short and intermediate range missiles across the Taiwan Strait, are not the answer. Dialogue is. We are direct with the Chinese in Beijing that our maintenance of unofficial relations with the people on Taiwan and our commitment to support Taiwan's self-defense are fundamental to our “one China” policy. We favor and encourage dialogue across the Strait.

Our productive relationship with China can only be based on a true reflection of our values. They are our greatest strength. We will be forthright in telling Beijing that its human rights violations are unacceptable to the American people and that change is necessary. Every American Administration has been clear about this: U.S.-China relations cannot reach their full potential so long as Americans are persuaded that the Chinese government systematically violates its people's most basic rights of worship, peaceful assembly and open discourse.

We are pressing the Chinese government at all levels to end abuses, including use of torture, arbitrary arrest, and detention without public trial or for peaceful expression of political or religious views. In particular, we will press for an end to religious restrictions against Tibetan Buddhists. We have forcefully raised the recent detentions of U.S. citizens and legal permanent residents. The President discussed this issue with President Jiang Zemin in their phone conversation on July 5. In fulfilling our responsibility to all Americans, we issued a Public Announcement through our consular information program that provides the full picture to those planning to travel to China.

Religious freedom and tolerance are also issues at the center of our concerns about how China treats its people. Taking the longer view, we will also work to preserve Tibetans' unique cultural, religious, and linguistic heritage. We urge China to open a dialogue with the Dalai Lama or his representatives.

Proliferation is an area where we have shared interests with China, but where we also have disagreements about Chinese actions. It is in our interests and the interests of the entire international community that China abide by international norms and standards in dealing with proliferation issues. We will work hard to have China adhere to those standards.

There are additional areas where we share interests with China and would like to see it continue or expand constructive policies. We want to build on cooperation against narcotics trafficking; China realizes that drugs are a threat to the Chinese people. The problems of trafficking in persons and illegal immigration are also areas where we have a common interest with China. We want to work with China to combat the spread of HIV/AIDS. And we will continue to work together where possible to protect the environment.

Secretary Powell stated that we have a strong interest in supporting the development of the rule of law in China. We are prepared to offer an American perspective to China as it attempts to develop a more transparent and accountable legal system; we have, after all, the most open, transparent, and democratic legal system in the world.

We have enunciated a clear path forward. China is in a position to chart a mutually beneficial course for our future relationship. This Administration wants a productive relationship with Beijing that promotes our interests and those of the entire Asia-Pacific region. We are willing to work with China to address the areas of common concern that I have mentioned. These are items on a bilateral agenda with China that are in our national interest and we believe China's leaders will also see these as common interests.

But we will be firm in advocating our views:

- We will not shy away from supporting our friends and defending our common interests in the region.
- We will address differences with China forthrightly and in a spirit of mutual respect.
- We will be guided by our values and ensure Beijing understands it cannot have a stable relationship with the American people if it continues to oppress its own citizens.
- Above all, we will insist that China respect its bilateral and international obligations.

China's behavior, particularly in the next few months, will determine whether we develop the kind of productive relationship the President wants. We encourage China to make responsible choices that reflect its stature and obligations to the community of nations. The Congress can help nudge China in the right direction by rejecting H.J. Res. 50.

## **Statement of the Ad Hoc Committee of Domestic Nitrogen Producers**

### ***Introduction***

The Ad Hoc Committee of Domestic Nitrogen Producers (“the AD Hoc Committee”) is an informal coalition of a number of major U.S. nitrogen fertilizer producers. The members of the Ad Hoc Committee include CF Industries, Inc.; Mississippi Chemical Corporation; Terra Industries, Inc.; PCS Nitrogen, Inc.; and Coastal Chem, Inc. The Ad Hoc Committee has worked diligently over the past several years with U.S. trade negotiators and the Congress to ensure that China provides meaningful market access for foreign fertilizer producers. The Ad Hoc Committee is following carefully the final phase of negotiations on China’s accession to the WTO currently taking place in Geneva in the WTO Working Party on China’s Accession.

The Ad Hoc Committee seeks the support of the Committee on Ways and Means and the Trade Subcommittee in helping to ensure that the final text of China’s market access schedule for goods as well as the final texts of the Working Party report, its annexes, and the Chinese protocol of accession maintain and provide for full and timely implementation of China’s bilateral commitments to the United States on fertilizer. The Ad Hoc Committee also seeks the support of the Committee on Ways and Means and the Trade Subcommittee in obtaining a further commitment from China that U.S. fertilizer exports to China will receive treatment no less favorable than that apparently committed to fertilizer producers from the European Union for the time period between now and the date of entry into force of the WTO for China.

### ***China’s Bilateral Commitments to the United States on Fertilizer***

The issue of Chinese market access commitments on fertilizer was the last market access issue resolved bilaterally between the United States and China. The Chinese had withdrawn their earlier concessions on fertilizer at the last moment when the original U.S.-China Agreement On Market Access of November 15, 1999, was signed. However, at the insistence of Ambassador Barshefsky, China committed to reexamine her position and to resolve the problem. Based on this commitment, subsequent negotiations between China and the United States led to the signing of a separate bilateral agreement on fertilizer on April 28, 2000 (“Additional Provisions on Market Access for Certain Chemical Fertilizers”). Under this agreement, the Chinese committed to establish tariff rate quotas (TRQs) for urea and diammonium phosphate (DAP) that would provide meaningful access to the Chinese market for these key fertilizer products.

### ***Work on Incorporating China’s Fertilizer Commitments into the Final Terms of China’s Accession to the WTO and Outstanding Issues***

Since the conclusion of these bilateral agreements, U.S. negotiators have worked hard in Geneva to ensure that the final text of China’s market access schedule for goods as well as the final texts of the Working Party report, its annexes, and the Chinese protocol of accession maintain and provide for full and timely implementation of China’s bilateral commitments to the United States on fertilizer. At the most recent meeting of the WTO Working Party on China’s Accession in Geneva on June 27–July 4, most of the outstanding issues in the various texts as they relate to fertilizer were apparently resolved although the U.S. fertilizer industry must still review the final texts. (The U.S. fertilizer industry sent a delegation to Geneva to advise USTR during the latest round of talks.)

Nonetheless, there are still several open questions that must be resolved relating to possible domestic price controls on urea and the administering agency in China for fertilizer TRQs. In addition, the Europeans recently negotiated preferential access to the Chinese market for its fertilizer exports for the period of time between now and the date of accession for the Chinese. Unless the Chinese are willing to extend these interim fertilizer concessions to third countries, U.S. fertilizer interests will be sorely disadvantaged. A number of Senators sent a letter to Ambassador Yang Jiechi on June 29 expressing their concern about this matter and asking for equal treatment for the U.S. fertilizer industry.

### ***Objectives of the Ad Hoc Committee on Fertilizer and China***

In working with USTR officials and the Congress on this matter in recent months, the Ad Hoc Committee has indicated that it has the following objectives on fertilizer for the close-out phase of negotiations on China’s accession to the WTO:

- **The bilateral fertilizer agreement (“Additional Provisions on Market Access for Certain Chemical Fertilizers”) that was signed in Beijing on**

**April 28, 2000 must stay intact.** The U.S. fertilizer industry, including the Ad Hoc Committee, worked very hard to achieve agreement with the Chinese on market access for fertilizers. The agreement consists of commitments on tariff rate quotas (TRQs) for DAP and urea and how those TRQs will be administered. This agreement must not be altered, unless it were to increase the quantities for DAP and urea that would receive the lower tariff rate of 4 percent, as opposed to the out-of-quota tariff rate of 50 percent.

- **China should fulfill her obligations under the bilateral fertilizer agreement on a timely basis:** The TRQ provisions for fertilizer were carefully thought through with the aim that implementation of these TRQs would coincide with the fertilizer business cycle. Therefore, it is critically important for the Chinese to adhere to the schedule set forth in the bilateral agreement. This includes application procedures, official journal publication dates, allocation procedures, and reallocation procedures. It is essential to insure that these procedures are in place well before the official entry of China into the World Trade Organization.
- **Prior to entry into force of the WTO for China, the Chinese should provide equitable market access for fertilizer that is roughly comparable to the formal commitments made by the Chinese under the bilateral fertilizer agreement, and in any event, access no less favorable than that given to third countries, such as the EU.** When the bilateral fertilizer agreement was reached, it was the expectation of the U.S. side that China would enter the WTO by January 1, 2001; and that the market access provisions for fertilizer would begin to apply as of that date. Unfortunately, there have been unforeseen delays in Chinese entry into the WTO, although it is hoped that this can occur in the early part of 2002. In the interests of equity and the fact that the U.S. is entitled under the MFN provisions of the U.S.-China Trade Agreement of 1978 to access comparable to that apparently committed by China to the EU for NPK in advance of China's formal entry into the WTO, the Ad Hoc Committee believes that China should provide access for DAP and urea from now until WTO entry that is roughly comparable to the commitments they made under the bilateral fertilizer agreement. It was clearly the expectation of the U.S. side when it negotiated the bilateral agreement that such access would have been provided by now. Any delay by China in providing this access will do grave harm to the U.S. industry.
- **China should not impose domestic price controls on the sale of urea in China.** The Ad Hoc Committee has been advised informally, and is seeking to confirm, that China intends to reserve the right to impose price controls on the sale within China of at least a portion of Chinese production of urea. The Ad Hoc Committee firmly opposes the imposition by China of any price controls on the sale of urea in China, as this will only distort the market for urea in China and could seriously undermine the value of the market access concessions for urea made by China in the bilateral fertilizer agreement.
- **MOFTEC is the proper Chinese agency to implement and administer the fertilizer TRQ.** MOFTEC is the appropriate Chinese agency to perform this function since it is regularly engaged in international trade matters and is knowledgeable of the workings of the fertilizer industry.

#### **Conclusion**

The Ad Hoc Committee appreciates the opportunity to provide these written comments for the record in conjunction with the hearing of the Trade Subcommittee of July 10, 2001, regarding China's accession to the WTO. The Ad Hoc Committee appreciates the support of the Trade Subcommittee in working with U.S. negotiators and Chinese officials to attain the objectives of the Ad Hoc Committee as set forth in this submission. Attainment of these objectives is crucial for the long-term economic health of U.S. nitrogen fertilizer producers.

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#### **Statement of the American Insurance Association**

U.S. property and casualty insurers strongly supported the 1999 U.S-China bilateral agreement on China's accession to the World Trade Organization (WTO) because of the far-reaching and comprehensive market access commitments it provided for U.S. insurers to the Chinese market. The agreement did not completely open the market for U.S. insurers, but it opened it significantly enough to generate further confidence among U.S. insurance companies already invested in China or those contemplating investments in the future.

The U.S. property and casualty insurance industry and its trade association, the American Insurance Association, spent considerable time and resources lobbying in support of Permanent Normal Trade Relations for China in 2000, largely based on the quality of the 1999 agreement. It lobbied hundreds of congressional offices and contacted every Member of the House and Senate in support of PNTR.

**One year later, the AIA is proud to offer its continued strong support for China's accession to the WTO and for the granting of Normal Trade Relations (NTR) for China again this year until accession becomes a reality.** The U.S. property and casualty insurance industry has had various issues subject to negotiation since the 1999 agreement, and more recently in the WTO Working Party on China's Accession, in an effort to clear up ambiguities in that agreement. We are happy to report to the House Ways and Means Trade Subcommittee that these issues have progressed to our satisfaction and will result in meaningful market opening opportunities for many U.S. property and casualty insurers.

These issues have included:

- The elimination of the mandatory 20 percent reinsurance cession on non-life insurance products. The Working Party report calls for a phase-out of this cession over a period of four years. The AIA has expressed concern over the cession in the past and supports its timely phase-out.
- Opening the market to "large-scale commercial risks." Large commercial risks in China have always been a targeted market for U.S. property and casualty insurers, and the U.S. prioritized the opening of this market in the 1999 agreement. Language in the Working Party report will set the parameters for the "large-scale commercial" risk market at approximately \$50,000 in U.S. premium value and an \$18 million investment level. While these parameters will limit access to China's commercial market for U.S. insurers, this opening in the commercial market is a good start and one that we hope to build on in future negotiations.
- Master policy coverage. The agreement will permit insurers to underwrite blanket coverage for the same person's property and liabilities but located in different places. This will make it easier and more efficient for an insurer to underwrite the risks of one company that conducts business in multiple locations throughout the country.
- Licensing criteria. We have reviewed language currently in the Working Party report that addresses criteria for license applications from U.S. insurers and believe that it should provide for a fair and transparent system for awarding licenses in a timely and fair manner. Last year, the AIA reported that over 20 U.S. insurance companies were currently operating in China in some capacity, and this criteria should help them become licensed if they meet the relevant qualifications.

**The AIA remains committed to China's WTO accession and continued congressional support for NTR for China.** We are happy to report that all issues of concern to us appear to be on the verge of being favorably resolved in the Working Party report, and we will continue to work with USTR negotiators toward that end. We understand that all parties involved—the U.S., China and all WTO countries—will continue to watch China's accession with great interest and optimism, and stand ready to assist China in any way in successfully adhering to the terms of accession and to WTO membership in general. Anything less would be a disservice to global trade and prosperity, the effectiveness of the WTO, U.S. trade policy, and, importantly, to the Chinese people and private sector that will benefit from a healthy and open property and casualty insurance sector.

## *INSURANCE AND CHINA*

### *Background*

- Compared to other major countries, China's insurance market is relatively new and still evolving. Foreign participation in the market is even more recent with many foreign insurance companies just beginning to establish a presence in China in the last decade.
- Insurance was nationalized in China in 1949, and until the late 1980s the market was dominated by a small number of state-owned insurance companies in China. China began to gradually award licenses to foreign insurers in the early 1990s, but the business activities of the licensed companies have been heavily restricted and still are today.
- As in most developing countries, insurance has not been a major component of China's economy in the past. As the economy in China has gradually expanded

and undergone some reform, more types of insurance products (that are common in developed countries) are now in higher demand.

- Currently, the Chinese market is still largely closed to foreign insurance companies. While several foreign insurance companies have operating licenses in China, the extent to which they can operate and sell their products is extremely limited.
- The Chinese Insurance Regulatory Commission (CIRC) was created in 1998 to regulate the business of insurance in China. The creation of a single agency to regulate the business is indicative of the increasing importance of insurance to the Chinese economy.
- Currently, there are nearly 30 insurance companies operating with licenses in China, including Chinese and non-Chinese companies.

#### ***Chinese market—the future***

- The Chinese economy experienced significant growth in the 1990s. Continued economic reforms will generate new economic growth and significant new opportunities for U.S. insurers. As China continues to open its doors to foreign investment, U.S. insurers want to insure both commercial and personal lines exposures to both foreign and Chinese consumers.
- China, with a population of 1.2 billion, represents the largest untapped market for property-casualty and life insurance products. Based on SIGMA (Swiss Re) data, China has a very low penetration rate of 1.22 (total insurance premiums as a share of gross domestic product), which places it 65th of 82 countries in the survey. The per capita spending on insurance policies in China in 1996 was U.S. \$6, which places it 78th among 82 countries. Per capita spending on insurance policies in the U.S. was \$2,460 in the same year.
- Total insurance premiums in China in 1998 (property/casualty and life) amounted to U.S. \$15.1 billion. The annual growth rate in the insurance market from 1993–98 averaged 29.7%.

#### ***U.S. and other foreign insurance company activity***

- Currently, foreign insurers are allowed to conduct limited business activities in two Chinese cities only, Shanghai and Guangzhou. Depending on the type of insurance a foreign company sells, the company, if licensed, faces significant restrictions on what form of ownership it may assume, what products it can sell and to whom, where it can sell its products, whether it must comply with a different set of regulations from domestic companies, and a host of other barriers that prevent it from competing freely in that market.
- Property/casualty insurers are allowed only to sell products to other foreign entities in China. They are not allowed to sell directly to Chinese consumers.
- The first U.S. company to receive an operating license in China was AIG in 1992. The second and most recent U.S. insurer, Aetna, received a license in 1997. Both companies are severely limited in how they operate and what products they can sell. The Chinese government announced in April 2000 that an additional license was to be awarded to The Chubb Corporation, and this license has since been approved.
- Seven individual insurance companies from Japan, Canada, Switzerland, Germany, France, the U.K., and Australia have also received licenses since 1992.
- Over 100 other foreign insurance companies, including 20 from the U.S., have established a physical presence in China with the hope of becoming licensed in the future.

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#### **Statement of Carlos Moore, American Textile Manufacturers Institute**

This statement is submitted for the record by the American Textile Manufacturers Institute (ATMI), the national trade association of the domestic textile mill products industry.

ATMI is opposed to renewal of normal trade relations (NTR) status for the People's Republic of China. We urge Congress to pass H.J. Res. 50, a resolution to disapprove of the President's waiver of the Jackson-Vanik amendment's requirements, which was granted in order to continue China's normal trade relations status.

As ATMI has stated on numerous occasions, China has not earned NTR status with the United States because of its continued irresponsible behavior on a variety of fronts.

With respect to textile-related issues specifically, China has signed six bilateral textile trade agreements with the United States over the past two decades and has

subsequently broken every one of them. China illegally smuggles more than \$4 billion worth of textiles and apparel into the United States each year. It routinely violates U.S. design and copyright laws—in fact, China has signed four intellectual property rights agreements—and intellectual property theft in China remains rampant. In fact, a recent National Trade Estimates report compiled by the U.S. Trade Representative's Office notes that "U.S. industry estimates of intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded \$2 billion."<sup>1</sup>

In addition, China is already exploiting a loophole which exists in current U.S. trade regulations that allows it, as a non-market economy, to be inexplicably exempted from U.S. countervailing duty law against export subsidies. Further, China maintains tariff and non-tariff barriers that have restricted U.S. textile and apparel exports, despite repeated promises to liberalize. This is yet another example of how China gets better treatment than our other trading partners.

Thus, there is nothing "normal" about the manner in which China conducts its trade policy, and it is not deserving of NTR status with the U.S.

Also, make no mistake about it—NTR status for China, and the terms under which it is preparing to enter the World Trade Organization, will severely undermine the economic partnerships that have formed and continue to form between U.S. yarn and fabric producers and apparel manufacturers in Mexico and the Caribbean. Once all global textile and apparel quotas are removed, China is poised to essentially wipe out these mutually beneficial trade arrangements we have made with our hemispheric neighbors.

This concern is borne out by a 1999 U.S. International Trade Commission (ITC) study on China's accession to the WTO,<sup>2</sup> which determined the Chinese share of apparel imports into the U.S. would more than triple as quotas are phased out by the year 2005. The ITC study revealed that the effect of the Chinese quota phase-out on other regions, particularly the Caribbean nations and Mexico, will be equally severe. These countries' growing apparel sectors, which exist almost entirely to service U.S. markets, will be decimated by the early phase-out of controls on imports from China.

The major concern about the early phase-out of quotas on imports of textiles and apparel from China is that China is getting a better deal than the rest of our trading partners. Once China joins the WTO, the U.S. has agreed to remove controls on imports from China by January 1, 2005. This means that, as a WTO member, China will be subject to a much shorter quota phase-out period than other WTO members. For example, if China joins the WTO by January 1, 2002, it will receive a three-year phase-out period. Other U.S. trading partners that are WTO members faced a ten-year phase-out period. China is the least deserving country imaginable for this preferential treatment.

Giving China enhanced access to the U.S. market for its vast subsidized textile and apparel sector while U.S. textile and apparel access into the Chinese market remains seriously impaired seems to be an act of unilateral surrender on the part of the United States. In light of the current economic crisis facing the U.S. textile industry, with nearly 50 plants having closed in the first five months of this year, and over 56,000 workers—*10 percent of the industry's entire workforce*—losing their jobs in the past twelve months, the U.S. textile industry cannot afford to make further unwarranted trade concessions, such as granting China normal trade relations status.

The ongoing devastation to the U.S. textile industry resulting from the Asian currency devaluations of recent years, which has given Asian imports the equivalent of a 40% price cut upon entering the U.S., has made our industry even more vulnerable to subsidized Chinese imports. Without some government mechanism to correct this imbalance, extending NTR for China would only compound the problem. On the other hand, denial of NTR to China would offset, at least in part, the damage to our industry by devalued Asian imports.

Finally, China's continuing practice of arresting dissenters, as well as U.S. citizens and academics indicate that it is unworthy of normal trade relations. Seizure of a U.S. Navy plane, detention of its crew and then handing the U.S. a \$1 million bill for what amounts to a kidnapping should be the final straw. The U.S. should not ignore these actions and "reward" China by continuing normal trade relations status.

In a larger sense, renewal of NTR for China signals a willingness on the part of the U.S. to grant China permanent NTR and membership in the WTO. This Admin-

<sup>1</sup> 1999 National Trade Estimate Report on Foreign Trade Barriers, USTR, p. 60.

<sup>2</sup> Assessment of the Economic Effects on the United States of China's Accession to the WTO, Investigation 332-403, (Publication 3229; September 1999).

istration and the previous one have said the WTO accession agreement between the U.S. and China will hurt no one in the U.S. and will provide new and important export opportunities for U.S. companies. The reality is quite different.

The U.S. textile industry, its nearly 500,000 workers and its suppliers in the man-made fiber, cotton, chemical, machinery and related industries will be hurt by the special treatment provided China in the accession agreement.

Those U.S. companies hoping to sell products and services to WTO member China must consider the opportunity to do so to be just that—a hope. China is already backtracking on several commitments and has never embraced imports in the past.

So, the impact on the U.S. of normal trade relations with China (and the WTO membership that it brings) will certainly damage the U.S. textile industry, its workers and suppliers. On the other hand, accession *might* benefit other U.S. industries. Not something to bet an important, essential industry on—but that is what the U.S. Government is doing.

In conclusion, for the reasons we have stated, we urge the committee to adopt H. J. Res. 50 and reject renewal of NTR with China.

Channellock  
Meadville, Pennsylvania 16335  
*July 10, 2001*

Attention: Allison Giles  
Chief of Staff  
Committee on Ways and Means  
U.S. House of Representatives  
1102 Longworth House Office Building  
Washington, DC 20515

Gentlemen:

It has come to my attention that Congressman Crane is soliciting testimony from the private sector regarding the United States-China trade relations and the status of China's negotiations to the World Trade Organization. Specifically, the hearings have to do with whether or not the United States will grant for another year to "non-market economy countries" such as mainland China and Taiwan, Normal Trade Relations (NTR) formerly known as Most-Favored-Nation (MFN) trade status.

We understand that Congressman Dana Rohrabacher (R-CA) on June 5, 2001 introduced a joint resolution disapproving the extension of the waiver authority contained in section 402(c) of the Trade Act of 1974 with respect to China. The purpose of this letter is to comment on that resolution.

By way of background, Channellock is a family-owned business established in 1886 in Meadville, Pennsylvania, USA. We are in the business of manufacturing mechanics' hand tools, specifically pliers and screwdrivers under the trademark CHANNELLOCK. We make a very high quality product that is well-known in global, hand tool marketplaces. We employ 570 people in Meadville, Pennsylvania, 461 of whom are members of the United Steelworkers of America Local 1917-03.

It is my belief that granting Normal Trade Relations or Most Favored Nation Status to mainland China and to a lesser degree Taiwan, is slowly killing the manufacturing base of the United States for two reasons:

1. In doing so, you give these nations who are purportedly "non-market economy countries," full access to the domestic markets of the United States of America. Conversely, in trying to sell our products in their markets, we find non-tariff barriers, trademark violations, and certainly great difficulty in collecting payments due from delinquent customers.
2. At the same time, you saddle American industry with massive regulation and onerous, confiscatory taxes to which Chinese manufacturers are not subject.

I am by nature a fair trade person and believe that trade benefits all countries of the world. But I believe that you need to understand the restrictions under which you expect us to trade/compete with these two countries achieving Normal Trade Relations.

As stated above, mainland China has no regard for intellectual property law. They continually abuse/copy, our trademarks and patent rights. And there is no rule of law in China to follow-up on any violations of our rights in the areas of intellectual property laws.



## Regulation:

- ERISA—Show me any Chinese pension plans and regulation of them. Show me their Pension Benefit Guarantee Corp. regulations which are in place in this country to protect pensioners in case an employer goes into default.
- OSHA—Show me their Occupational Safety and Health Administration. Show me any Safety Committees. Show me the Chinese manufacturer's Safety Committee Minutes. Show me their Lost Time Accident Reports. Show me their Machine Guarding Standards.
- Environmental Protection Agency (EPA)—Show me their clean air standards. Show me their Hazardous Waste permits. Show me any permits and fees that they pay for all sorts of things such as ground water run-off and the right to burn trash in an incinerator. Show me their emission standards and their compliance documentation. Show me their Clean Air Standards Act.
- Show me their Minimum Wage Law Legislation.
- Show me their Family Medical Leave Act Legislation.
- Show me their Patient's Bill of Rights Legislation.
- Show me their Trade Adjustment Assistance Act Legislation (when their local manufacturers lay off people because of foreign competition, the government provides training and education funds to retrain these laid off workers).
- Show me their Unemployment Compensation Statutes and the taxes that are paid by Chinese manufacturers to support said statutes.
- Show me their Social Security Program and the taxes that the Chinese manufacturers pay to support that program.
- Show me their Medicare and Medicaid Legislation. (And, oh by the way, show me how they go about accrediting their hospital facilities such as we do in this country via the Joint Commission on Accreditation to assure consistent, high quality care.)
- Show me how many Chinese manufacturers are ISO 9000 certified.
- Show me their Labor and Industry Regulations assuring their factories are safe places to work.
- Show me their Robinson Pattman legislation with regard to protection of consumers against Chinese predatory pricing practices.
- Show me their "Right To Know" Regulations requiring Chinese manufacturers to properly label all chemicals/oils etc. workers contact in their daily jobs.

## Taxation:

- Show me their depreciation schedules and while you're at it, show me their Generally Accepted Accounting Principals as stated in their form of a Journal of Accountancy—doesn't exist.
- Show me any estate taxes they pay.
- Show me any capital gains taxes they pay.
- Show me any income taxes that are paid to any city, county, state, and federal agencies.
- Show me any sales taxes that are paid by Chinese manufacturers.
- Show me any property taxes that are paid by Chinese manufacturers.
- And certainly show me any Occupational Privilege Taxes that are paid by Chinese manufacturers.
- Show me any Capital Stock Taxes paid by Chinese manufacturers.

## Product Liability:

- Show me how you can be compensated if you are hurt while using a Chinese product. Who do you sue? It certainly will not be the Chinese manufacturer.

The point of all of this is that offering Most Favored Nation/Normal Trade Relations Status to these kinds of countries does nothing but slowly kill the domestic manufacturing backbone of this country and you are using a two-edged sword to do it:

1. The one edge is giving them open access to our markets while we have limited access to their markets.
2. The second edge is that Chinese manufacturers are *not* subject to any of the above referenced regulations under which U.S. domestic manufacturers must operate. This severely raises our costs and makes us uncompetitive. The long-term affect is that it will put us out of business. If that is your goal, you are right on track.

Any red-blooded American citizen should be outraged. Declaring mainland China and Taiwan as a "non-market economies" is ludicrous. Just look at the billions of dollars of trade between China, Taiwan, and the United States—most of it *from*

them, to us. Calling China and Taiwan “non-market economies” just makes no sense.

Further, offering them full and free access to our markets when our local industries cannot begin to compete with them due to the above referenced regulations and taxes.

The solution lies in having these countries recognize and implement social, safety, and environmental standards. The United States government needs to further rethink our systems of taxation to aggressively promote the creation of capital and to aggressively reward productivity instead of taxing it.

I submit this for your consideration with the hopes that some day somebody inside the beltway will WAKE UP!

Sincerely,

William S. DeArment  
*President & CEO*

[The attachment is being retained in the Committee files.]

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### **Statement of the International Mass Retail Association, Arlington, Virginia**

This statement is submitted on behalf of the International Mass Retail Association (IMRA), the world’s leading alliance of retailers and their product and service suppliers. IMRA is committed to bringing price-competitive value to the world’s consumers. IMRA improves its members’ businesses by providing industry research and education, government advocacy, and a unique forum for its members to establish relationships, solve problems, and work together for the benefit of the consumer and the mass retail industry. IMRA represents many of the best-known and most successful retailers in the world, who operate thousands of stores worldwide. IMRA equally values among its members hundreds of the world’s top-tier product and service suppliers, working with their retailer partners to further the growth of the mass retail industry.

All of IMRA’s members are dependent upon imports to provide American consumers with high-quality, low-priced goods. Many IMRA members import products directly from China, while others sell products that have been imported by American brand-name consumer product suppliers. China is an important source of supply for such every-day products as clothing and toys. In addition, a handful of IMRA member companies actually operate stores within China.

Consequently, IMRA’s member companies have a strong interest in seeing stable U.S.-Sino relations, both political and economic. IMRA supports the U.S.-China bilateral agreement on accession into the World Trade Organization (WTO) that was completed in November 1999, as well as additions to that agreement recently concluded. IMRA also supported the passage of permanent Normal Trade Relations (PNTR) status last year. Unfortunately because China has not yet become an official member of the WTO, Congress must once again vote on the annual renewal of NTR.

For this reason, IMRA believes this year’s NTR vote is the trade equivalent of an “extender” designed to maintain the status quo until China becomes an official member of the WTO. With both the U.S. and EU wrapping up the major outstanding WTO accession issues, China is sure to become a full member of the WTO by the end of the year. Disapproving NTR now, will upset negotiations that are of vital importance in opening China’s markets for many industries, including retailing, since the accession agreement contains significant market access concessions on retailing services.

#### ***NTR Benefits U.S. Retailers and Consumers***

The revocation of China’s NTR status could have serious economic repercussions on IMRA’s members who import or who rely on imported merchandise as well as harm U.S. consumers and manufacturers. The loss of NTR status would mean markedly higher import tariffs on a wide range of products, from footwear to toys to consumer electronics. Tariffs would increase on from an average of about 4% to an average of 60%. In some cases, the duty would jump to as high as 100%.

Such steep duty increases 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. In the past, the NTR vote has occurred in June or July, which are the peak months for importing Christmas merchandise. Revocation of NTR would mean significantly higher prices and shortages of key Christmas products. This obviously would hurt

American families more than it would the Chinese. The 5 weeks of the Christmas shopping season account for about 25% of U.S. retail sales for the entire year.

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, and is 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.

IMRA's catalog and Internet members also depend upon the annual renewal of NTR. 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. A loss of NTR means that 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.

#### ***Benefits to U.S. Retailers Operating in China***

Currently, American retailers face numerous obstacles in opening stores in China. Chinese licensing requirements are onerous and obtaining a license can take months or even years. More important, China has made the development of large-scale retail operations, with many outlets, nearly impossible, because it requires that each store location be separately licensed and financed with unique local partners.

Under the WTO accession agreement negotiated by the United States and Europe, the ability to obtain licenses will be made easier, although equity restrictions will still be placed on stores larger than 20,000 square meters and retailers with more than 30 stores. While many IMRA members wishing to operate in China fit those categories, we still view the accession agreement as a positive step, because it eliminates the store-by-store approach. Obviously, having China become a member of the WTO, means that the United States can raise these remaining restrictions as part of the broader WTO Negotiations on Services now ongoing.

Another key provision of the U.S.-China WTO accession deal is China's agreement to liberalize restrictions on their distribution system. Currently, 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 of an American mass retailer. Under the current deal, the Chinese agreed to phase out all restrictions on distribution services within three years.

For retailers, this means removal of restrictions on foreign equity share, geographic restrictions and number of service suppliers. American retailers will now 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.

Obviously, if Congress were to revoke China's NTR at this point in the WTO accession negotiations, it would "upset the apple cart" on the market access progress we have made as part of the WTO accession negotiations.

#### ***Rules and Safeguards***

Many in Congress have expressed concern about the ability to enforce the Chinese WTO accession agreement. It is important to remember that once China becomes a member of the WTO, it 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 its trade regime, including services.

There are also those who claim that allowing China to join the WTO will do nothing to further human rights or democratic change. These individuals couldn't be more wrong. 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.

Progress can only be made when the rest of the world decides to push for change, not just the U.S. The best example of a failed attempt to bring about democratic change unilaterally is the 40 plus years of isolationism between the United States and Cuba. Cuba remains a Communist nation today because the rest of the world has decided to maintain commercial relations, while the United States, which could be Cuba's closest trading partner, has decided to isolate Cuba in an attempt to end Communism. This will never work. As a member of the WTO, China will be forced to open its doors and allow not only goods, but also ideas into its closed economy. This is the greatest agent for change within China.

Some have expressed a fear that once China gains entrance into the WTO, it will flood the U.S. market with cheap goods, displacing U.S. workers. Because of this fear, the current WTO accession agreement includes a product-specific safeguard as well as a special safeguard covering textiles and apparel.

#### **Conclusion**

Granting China annual NTR and allowing it to join the WTO is a win-win for American businesses, both importers and exporters, and U.S. consumers. WTO accession will open a Chinese market that is currently closed. American retailers will be able to open up stores and act as a beachhead for U.S. consumer products in China. Congress has already granted permanent NTR for China, when it officially accedes to the WTO. It would be foolhardy, at this late date, with the accession negotiations so close to being finalized, to revoke China's temporary NTR. Such a step would undo years of work in negotiating market access terms that will inure to the benefit of many American businesses and consumers.

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### **Statement of the National Association of Manufacturers**

The National Association of Manufacturers (NAM) represents 14,000 American firms. Manufacturing comprises approximately one fifth of all the goods and services produced by the U.S. economy and directly supports 56 million Americans—the 18 million American men and women who make things in America and their families.

Trade is of great importance to NAM members. More than 80 percent of U.S. merchandise exports are manufactured products. About one sixth of total U.S. manufacturing output is exported, and for many industries the ratio is much higher.

#### **Importance of the China Market**

China represents an important market for U.S. manufactured goods. Last year total U.S. exports to China amounted to \$16.3 billion, making China our 11th largest export market. More than 90 percent of U.S. exports to China were manufactured goods.

One of the fastest growing economies in the world, China will offer significant new opportunities for a wide range of U.S. manufactured products in the years ahead. It is already one of the largest markets in the world for some capital goods, such as commercial aircraft and electrical power plants. As personal incomes rise, the demand for U.S. consumer products will also grow.

But U.S. companies face strong competition in the China market from other foreign suppliers, particularly those in Japan, South Korea, Taiwan, Germany and France. Withdrawing NTR status from China, even temporarily, would lead to trade retaliation that would cut many U.S. manufacturers out of the market, perhaps for years to come.

#### **Many Adverse Effects From Withdrawing NTR**

The manufacturing sector is already experiencing severe problems because of changes in the domestic and international economy. Manufacturing production declined 1.7 percent in the fourth quarter of 2000 from the previous quarter and another 7.9 percent in the first quarter of 2001 from that level. Since July 2000, the manufacturing sector has lost 788,000 jobs.

U.S. manufacturers are trying to cope simultaneously with a slowing domestic economy, a 27-percent increase in the trade-weighted value of the dollar since 1997, which makes U.S. exports substantially less competitive, and declining growth in major overseas markets, such as Japan and Europe. A trade conflict with China over NTR withdrawal would only add to these other burdens.

The negative spillover effects on other Asian economies, including many U.S. friends and allies, would also be significant. South Korea, Thailand, the Philippines and Malaysia are still recovering from the Asian financial crisis. An economic slowdown in China resulting from a disruption in U.S.-China trade could affect the entire region and threaten further economic recovery.

There would be other adverse consequences as well. After 15 years of difficult negotiations, the United States has finally reached an acceptable agreement on most of the key issues relating to China's membership in the World Trade Organization (WTO). WTO membership will require China to undertake substantial market-opening measures and begin adhering to internationally accepted trade rules. Congress has already endorsed China's WTO membership by approving legislation in 2000 that grants China permanent NTR status when its membership becomes effective. This is expected to occur later this year or in early 2002. Withdrawal of NTR, however, could complicate that process and lead to further delays.

#### **Other U.S. Interests Also Affected**

And more is at stake than just U.S. commercial interests. For nearly a quarter of a century, both Republican and Democratic administrations with bipartisan congressional support have pursued a policy of engagement as the best way to encourage positive change in China. It is in the U.S. national interest to see that China becomes a more open society that is based on the rule of law and allows more personal freedom. Trade with the United States and contact with U.S. companies help to promote those goals.

Trade helps raise living standards and exposes a broad spectrum of Chinese society to American values and culture. It allows many Chinese to see the political as well as economic benefits of American democracy and our free-market system.

This exposure comes not only to business representatives, workers and students that travel to the United States. It also comes from contact with American companies selling and producing their products in China. A recent study issued by the NAM and the Manufacturers Alliance (MAPI) showed that American companies bring their high ethical, labor and environmental standards to their operations in developing countries, including China.

The report revealed, for example, that 95 percent of the companies surveyed apply the same corporate code of conduct and ethical standards to their operations in developing countries as they do domestically. With regard to labor conditions, 87 percent of the companies surveyed have detailed policies on health and safety standards for workers. And 78 percent have environmental management systems that contain measurable objectives or targets for improved environmental performance.

Chinese who come in contact with American companies, then, are learning much more than just business and production skills. They are gaining insights into how successful companies in a modern democratic society manage the complex challenges of balancing the need for profits with high ethical, labor and environmental standards.

However, these economic benefits and positive social, cultural and political influences will be sharply curtailed if we were to terminate China's NTR status and disrupt our growing trade and investment relationship. In this environment, engagement even in other non-economic spheres would be difficult.

#### **Need to Stay the Course with China**

Encouraging China's economic engagement with the outside world has served U.S. interests well over the past two decades. It has brought economic benefits to the Chinese people and to American companies, workers and farmers. And it has helped to promote greater economic and personal freedom and respect for the rule of law in China. We should not undermine these positive developments by withdrawing China's NTR status and allowing a major disruption in our bilateral trade and investment.

In highlighting the many positive aspects of China's NTR status, we do not ignore the problems that exist in our trade relationship. Many U.S. firms are having difficulties competing with low-cost Chinese imports and selling their products and services in China. Withdrawing NTR status, however, is not the way to address these problems.

Over the long term, our best hope of establishing a level playing field in our bilateral trade is to have China abide by internationally accepted rules. The sooner that

China takes on its obligations as a WTO member the better position we will be in to achieve that goal. There will be other benefits as well. For example, in its agreement with China on WTO membership, the United States has negotiated a product safeguard provision to address market disruption and injury that occur because of surges in Chinese imports. The United States, however, cannot take advantage of these disciplines and safeguards if China's WTO membership is delayed by withdrawing NTR status.

For all these reasons, the National Association of Manufacturers endorses President Bush's decision to extend China's NTR status and strongly opposes House Joint Resolution 50 to discontinue NTR.

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**Statement of Eric Author, Vice President and International Trade Council,  
National Retail Federation**

**I. Introduction**

The National Retail Federation (NRF) submits these written comments to the Subcommittee on Trade of the House Committee on Ways and Means to inform members of the importance of "normal trade relations" trading status for China to America's retailers, their workers, and the American consumer.

NRF is the world's largest retail trade association with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet and independent stores. NRF members represent an industry that encompasses more than 1.4 million U.S. retail establishments, employs more than 22 million people—about 1 in 5 American workers—and registered sales of \$3.1 trillion in 2000. NRF's international members operate stores in more than 50 nations. In its role as the retail industry's umbrella group, NRF also represents 32 national and 50 state associations in the U.S. as well as 36 international associations representing retailers abroad.

As we have consistently in years past, NRF and the U.S. retail industry strongly supports the renewal of China's normal trade relations (NTR) status for several reasons:

- NTR for China helps retailers supply American families with a wide range of value-priced merchandise;
- NTR for China creates high-paying jobs related to both exports to China and imports from China;
- Failure to renew China's NTR status would deal a severe blow to Hong Kong.

**II. NTR for China Helps American Families**

Perhaps no one understands better than retailers the importance NTR for China plays in helping American families purchase well-made, value-priced goods. Every day, NRF's members shop the United States and the world in search of consumer goods that meet American families' demands for quality at competitive prices.

China offers us an opportunity to provide the goods these consumers demand at prices that fit their increasingly tight budgets. For many products, such as toys and consumer electronics, China is a low-cost alternative to other foreign producers. In other cases, such as high-quality silk apparel, sold not only by high-end department stores but also by mass retailers, China is the only source of a given product at affordable prices. In the case of silk apparel, even U.S. producers are not alternative suppliers.

Imports of consumer products from China are clearly significant, and failure to renew NTR would have broad effects on American families. In 2000, NRF estimates that retailers imported about \$80 billion (at first cost) of consumer goods from China, and NTR duty status provided retailers, and consequently, American consumers, \$40 billion in tariff savings. In today's highly competitive market, these duty savings are passed along directly to consumers. More specifically, toys imported from China account for about half of all toys sold in the United States. Moreover, footwear imported from China accounts for about 60 percent of all footwear sold in the United States. The Bank for International Settlements found that declining import prices generally in the United States lowered the annual rise in U.S. consumer prices by 0.9 percentage points (*Bank for International Settlements, 68th Annual Report, issued June 8, 1998, pages 24–25*). Imagine what would happen to the inflation rate—and American families' budgets—if the prices of consumer goods imported from China shot up by as much as 66 percent (non NTR tariff rates).

### III. NTR for China Creates Good Jobs in the United States

NTR for China creates high-paying jobs in the United States. As you have heard from many, U.S. exports to China support hundreds of thousands of American jobs every year. These include high-paying jobs in growing industries such as telecommunications, information technology, aviation and power generation. But what is not as widely known is that U.S. imports from China, which are more directly affected by NTR tariff treatment, support *an even larger* number of high-paying U.S. jobs than U.S. exports to China. The Trade Partnership estimates that U.S. imports of consumer goods alone from China in 1998 supported more than 1.7 million American jobs in such high-paying sectors as manufacturing (the jobs related to making cash registers and trucks to transport goods to stores, for example), finance and insurance, transportation, wholesaling and, of course, retailing. Failure to renew NTR for China would put many of these jobs at risk.

### IV. Failure to Renew China's NTR Status Would Deal A Severe Blow to Hong Kong

We cannot forget that failure to renew China's NTR status would deal a severe blow to Hong Kong. Hong Kong is the main gateway for China's trade and investment abroad. Hong Kong estimates that in 2000 it handled 70 percent of China's export to the United States and 27 percent of U.S. exports to China. The majority of Hong Kong's manufacturing industry is now located across the border in China, and many multinationals make Hong Kong their international base. The government of Hong Kong projects denial to China of NTR status would curtail Hong Kong's GDP by 2.3 to 3.3 percentage points.

### V. Conclusion

Not extending China's NTR status could have serious domestic consequences, both for retailers and American consumers. The American retail industry urges the Committee to recommend a continuation of China's NTR status.

StorageTek, Inc.  
Louisville, Colorado 80028  
July 12, 2001

The Honorable Philip M. Crane  
Chairman, Committee on Ways and Means  
United States House of Representatives  
1102 Longworth House Office Building  
Washington, DC 20515

### Re: *Renewal of Normal Trade Relations With China*

Dear Representative Crane:

On behalf of StorageTek, Inc., I am writing to support the extension of Normal Trade Relations (NTR) with China. By extending NTR with China this year, the United States Congress will send a strong message to China that the U.S. is a dedicated trading partner and committed to ensuring a smooth accession for China to the World Trade Organization (WTO).

StorageTek is a Colorado-based, high-tech multinational company manufacturing and marketing data storage products and services. The company, which has 7,600 employees, sells over \$2 billion in products and services annually in over 50 countries. StorageTek now sells over 50% of its storage products (which are almost exclusively manufactured domestically) overseas. Currently, a small percentage of our international sales are with China. However, that number is expected to rise dramatically following China's WTO accession.

The Sino-U.S. trade relationship is important to StorageTek for two reasons. First, we import several important component parts for domestic production that are produced in mainland China. Second, greater China (PRC, Taiwan, Hong Kong, Macao) is one of our top four growth markets worldwide. StorageTek in greater China has experienced average revenue growth of approximately 100% per annum since opening our Beijing office in November 1998. The entry of the China into the World Trade Organization will create substantial investment in information technology infrastructures, as companies prepare to deal with international corporations. This creates greater opportunities for U.S.-based companies such as StorageTek. For example, we are targeting major banks in the region, along with telecommunications firms, government institutions, and oil and gas companies for

increased opportunities associated with WTO accession. In anticipation of such growth, in 2001 StorageTek will open new offices in Shanghai, Taiwan, and Guangzhou to complement our existing operations.

In addition, China's accession to the WTO has positive effects throughout the information technology industry as a whole. WTO accession means China unilaterally adopts the WTO Information Technology Agreement (thus eliminating tariffs on most IT products); allows for trading and distribution rights, which eliminates costly middlemen; adheres to the WTO Trade-Related Intellectual Property Rights (TRIPS) Agreement providing for added protections for U.S. intellectual property; and agrees to subject itself to the WTO multilateral, dispute resolution system for addressing international trade disputes. In a broader sense, China would benefit from increased Access to American commercial information technologies. These technologies, including those manufactured by StorageTek, enabled people worldwide to improve business efficiency across all sectors, enhance educational and social opportunities, and connect with one another. Continued and improved market access for U.S. commercial information technology in China will ultimately contribute to the advancement of economic and social reform in China.

Each one of these benefits, however, could be lost without renewal of NTR this year. If NTR with China is not renewed, tariffs on Chinese goods will increase tenfold to 40–50%, increasing the cost of consumer goods and components—a tax paid by U.S. citizens. Also, American high-tech firms have invested, and slowly garnered market share in China. An interruption of our bilateral commercial relationship will undermine these investments and the hard-fought gains U.S. companies have made in the Chinese market, ceding them to our foreign-based competitors.

On June 8, 2001, during bilateral talks in Shanghai, the United States and China reached agreement on major outstanding issues concerning China's accession to the WTO. United States Trade Representative Robert B. Zoellick and China's Minister of Foreign Trade and Economic Cooperation Shi Guangsheng capped 15 years of negotiations on areas including domestic support for agriculture, services, and trading rights. This breakthrough signals China's imminent accession to the WTO, likely before the end of 2001. After proceeding this far, failure to renew NTR for China during the "closing" period of WTO negotiations would destroy 15 years of progress and cause significant harm to StorageTek and the IT industry.

Recently you said, "It is indeed heartening for those of us who support normalizing U.S. trade relations with China to observe that China's negotiations to join the WTO are close to concluding. The momentum for opening trade with China is building. Last year, we passed the permanent normal trade relations legislation, and earlier this month, USTR made significant progress with the Chinese to further open their markets to our goods and services. We need to keep the momentum going by renewing China's NTR status for another year." StorageTek agrees with these sentiments wholeheartedly and calls upon the U.S. Congress to extend NTR to China for another year to allow the completion of China's WTO accession.

Sincerely,

Gary Francis  
*Corporate Vice President*

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