

like to request unanimous consent to hold a hearing on the reorganization of the Veterans Health Administration, and the requirement of 38 U.S.C. 510(b) for the Department of Veterans Affairs to provide 90 days' notice to the Congress before an administrative reorganization may take effect. The hearing will be held on May 11, 1995, at 10 a.m., in room 418 of the Russell Senate Office Building.

The PRESIDING OFFICER. Without objection, it is so ordered.

SPECIAL COMMITTEE ON AGING

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Special Committee on Aging be authorized to meet during the session of the Senate on Thursday, May 11, at 9:30 a.m. to hold a hearing on the topic of long-term care financing.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON DISABILITY POLICY

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Subcommittee on Disability Policy of the Committee on Labor and Human Resources be authorized to meet for a hearing on the Individuals with Disabilities Education Act, during the session of the Senate on Thursday, May 11, 1995, at 10 a.m.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON IMMIGRATION

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Subcommittee on Immigration of the Committee on the Judiciary be authorized to meet during the session of the Senate on Thursday, May 11, 1995, at 2:30 p.m. to hold a hearing on Immigration and Naturalization Service oversight.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON INTERNATIONAL OPERATIONS

Mr. CHAFEE. Mr. President, I ask unanimous consent that the International Operations Subcommittee of the Committee on Foreign Relations be authorized to meet during the session of the Senate on Thursday, May 11, 1995, at 3 p.m. to hear testimony on the reorganization and revitalization of America's foreign affairs institutions.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON NEAR EASTERN AND SOUTH ASIAN AFFAIRS

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Near Eastern and South Asian Affairs Subcommittee of the Committee on Foreign Relations be authorized to meet during the session of the Senate on Thursday, May 11, 1995, at 10 a.m. to hear testimony on U.S. assistance programs in the Middle East.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON READINESS

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Subcommittee on Readiness of the Committee on Armed Services be authorized to meet at 2:30 p.m. on Thursday,

May 11, 1995, in open session, to receive testimony on Environmental, Military Construction and BRAC Programs in review of S. 727, the National Defense Authorization Act for 1996.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON SUPERFUND, WASTE CONTROL, AND RISK ASSESSMENT

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Subcommittee on Superfund, Waste Control, and Risk Assessment be granted permission to conduct an oversight hearing Thursday, May 11, at 1:30 p.m., regarding the Comprehensive Environmental Response, Compensation, and Liability Act.

The PRESIDING OFFICER. Without objection, it is so ordered.

SUBCOMMITTEE ON TERRORISM, TECHNOLOGY, AND GOVERNMENT

Mr. CHAFEE. Mr. President, I ask unanimous consent that the Subcommittee on Terrorism, Technology, and Government Information for the Committee on the Judiciary be authorized to meet during the session of the Senate on Thursday, May 11, 1995, at 9:30 a.m. to hold a hearing on mayhem manuals and the internet.

The PRESIDING OFFICER. Without objection, it is so ordered.

ADDITIONAL STATEMENTS

TRIBUTE TO LEE TODD

• Mr. McCONNELL. Mr. President, I rise today to recognize the career of Mr. Lee Todd, who is working hard to make Lexington, KY, a major stop on the information highway. Lee is president and CEO of DataBeam, one of the State's few high-technology companies.

Lee grew up in Earlington, KY, where at age 14 he became the best pool shooter in town. Lee credits his early years in the western Kentucky town with helping make him who he is today. In a recent article in *Bluegrass* magazine, Lee says "I think every kid needs something to feel good about, to develop self esteem. For some kids it was athletics. For me, it was pool."

After graduating from high school, Lee attended Murray State University, but after 2 years he transferred to the University of Kentucky. After receiving his diploma, Lee moved to Boston and attended M.I.T., where he earned his M.S. and Ph.D in electrical engineering. It was also in Boston that he met his wife, Patsy.

The Todds returned home to the Bluegrass State after graduation. They settled in Lexington, and Lee got a job in the Electrical Engineering Department at the University of Kentucky. He taught at U.K. for 9 years, and during that time he was honored with several teaching awards, including the coveted U.K. Alumni Association Great Teacher Award.

Lee caught "entrepreneur fever" at M.I.T., where he was awarded with six

patents for advancements in picture tube technology. These patents helped lead to the development of DataBeam. In 1993, DataBeam introduced FarSite, the first software-driven computer conference room system. This high-technology allows a document to be viewed at the same time on different computer screens at different locations throughout the country.

DataBeam, which was given the Outstanding Small Business Award in 1988, is currently focusing on partnerships. The company recently added software giant Microsoft to its list of partners, which already includes AT&T, MCI, and Motorola.

Lee believes that by improving education and by helping to create a high-technology industry, Kentucky will have a brighter future. He founded and chairs the Kentucky Science, and Technology Counsel, which developed a hands-on learning package for elementary schoolchildren. This program is now used in about 60 percent of the elementary schools across the State.

Mr. President, I ask my colleagues to join me in recognizing this outstanding Kentuckian for his many accomplishments. I am confident that Mr. Todd will continue to invest in the future of Kentucky, as he has done so graciously in the past. ●

POLITICAL TRANSITION IN CHINA

• Mr. BAUCUS. Mr. President, on March 23, the Congressional Economic Leadership Institute, in conjunction with the Congressional Competitiveness Caucus, held a discussion of China as that nation begins a political transition.

The meeting was led by three China experts: former United States Ambassador to China, Jim Lilley; Nigel Holloway, Washington correspondent of the *Far Eastern Economic Review*; and Drew Liu, executive director of the China Institute.

Called "China After Deng," this vigorous discussion highlighted some of the outstanding issues in Chinese internal affairs and the United States-China relationship. I commend it to my colleagues who wish to gain a deeper understanding of these issues.

The panelists agreed, in the words of Drew Liu, that "China is perhaps entering the most crucial period of transition."

Mr. Holloway expressed another theme by urging "constructive engagement," since the United States and the West generally "need to keep drawing China out, into the wider world, and help to prevent its becoming a merchantilist military state."

Ambassador Lilley put these points in context by noting that basic long-term economic and political trends within China are positive and leading toward a more economically and militarily powerful nation, and that the range of United States interests in the relationship with China is very broad.

I want to compliment the institute for organizing this useful discussion, and I ask that the transcript be printed in the RECORD.

The transcript follows:

CHINA AFTER DENG

PANELISTS

Ambassador James R. Lilley, Director of Asian Studies, American Enterprise Institute.

Nigel Holloway, Washington Correspondent, Far Eastern Economic Review.

Drew Liu, Executive Director, China Institute.

MODERATORS

U.S. Senator Max Baucus.

Congressman Jim Kolbe.

Rep. JIM KOLBE. We're here to look at a very timely topic and one in which there is a great deal of interest in the United States—the subject of China in the era after Deng Xiaoping.

It's my pleasure this morning to introduce my Senate colleague and good friend, Max Baucus. Senator Baucus has been involved with the Competitiveness Forum for a long time—in fact, since it was begun in 1987. He is a member of the Trade Subcommittee of the Senate Finance Committee; he's also ranking member of the Senate Environment Committee. As I think many of you know, he has taken a very strong and personal interest in the subject of China over the years. Please join me in welcoming, to introduce our panel this morning, the senior Senator from Montana, Max Baucus. Max:

Sen. MAX BAUCUS. Thank you, Jim. Thank you all for coming out this morning. We have three very distinguished guests this morning to help us discuss the future of China as that nation enters an era of political transition. In politics and security, China is critical to every major Asian security issue—from the conflict between India and Pakistan, to the Spratly Islands, to the Korean peninsula and on up north to the Russian Far East. It holds a permanent seat with a veto in the United Nations Security Council and, of course, China is a nation of 1.2 billion people with one of the world's largest armies.

In commerce, China is already one of the world's largest economies and international traders. Its trading power will increase even more after 1997. While China is our fastest growing export market, its issues—copyrights and patents; market-access for Montana wheat-producers; World Trade Organization membership; and trade deficits—show that China is also one of our most difficult trade policy challenges.

In environmental policy, China will very soon become the largest contributor to global warming. Its rapid coastal development, growing fishing fleet, and reliance on coal for power generation, all pose immensely difficult questions. And, of course, since Tiananmen Square in 1989, almost no foreign-policy issue has been as controversial or as divisive here in the United States as has human rights in China.

Internally, China faces high inflation, widespread corruption, and a declining standard-of-living in rural and inland regions relative to urban and coastal areas. At the National People's Congress last week, people as diverse as Prime Minister Li Peng and dissident petitioners identified these as problems threatening the stability of the country.

And what should we, the United States, expect in the next few years? What policies are likely to get results? Conversely, what actions will create a backlash? Difficult questions—and we have had heated debates over them since 1989. But I think everyone will

agree the U.S. would benefit from a deeper understanding of trends and possible future developments in China. The CELI has brought together a panel of three long-time observers who can help us arrive at that understanding. They are:

The Honorable Jim Lilley. Jim is one of our country's most accomplished diplomats and Chinese scholars. He, of course, was the Ambassador of China during the Bush Administration and previously served as Ambassador to Korea. An internationally respected commentator on Chinese Affairs and U.S. China policy, he is now a Scholar-in-residence at the American Enterprise Institute.

Nigel Holloway, a long time observer of Chinese and Asian affairs. Mr. Holloway is the Washington correspondent for the Far Eastern Economic Review, which for decades has been the most respected Journal of East Asian business and politics.

And Drew Liu, Executive Director of the China Institute. The China Institute, established here in Washington by Wong Jung Tao on his release from prison last year, links China's most respectable intellectual dissidents on research on political and economic trends in China.

Each panelist will speak for a few minutes on what he sees as a major trend in China's economic and political development as we enter this transition era. Then we'll take questions. Thank you all for coming. Let's give a big warm welcome to our guest. [Applause.] Jim, I think you're first.

Ambassador JIM LILLEY. Well, that's quite a challenge. Let me just anecdote the first. I asked three people about the future of China—not romantics or visionaries, but people that basically do business there. One was a Korean fat cat who has invested probably three-quarters of a billion dollars in China and is investing more. And I said Chairman, how do you see China? He looked at me and he went like this [gesturing]—he said headaches, terrible headaches. But also, he said, long-term good.

Secondly, I talked to a Hong Kong businessman, just last night. And I said, where do you see it? He said, "I have just bought one-quarter of a billion dollars of property in Hong Kong and I see a long-term rise because I am in the business of making money. The one thing I avoid is having anything to do with princely, high-cadre kids, economically. Socially they're fine—but don't touch them any other way." But he said, "I'm putting my money where my mouth is—investing in the future of Hong Kong."

The third person was a Department of Commerce representative who speaks beautiful Chinese. He said Commerce is quadrupling its staff in Shanghai, hiring 22 new locals; it's going to become the base of operations, almost paralleling our operation in Beijing. In other words, the United States Government is putting its people where it's mouth is, and they are going to build a center in Shanghai. This on a bet on the future of China's economy. I'm not saying the U.S. Government is always right. But I'm saying this is where they are going to make their action.

Let's move into the situation of China. Just briefly, I'll touch on three zones which are the obvious ones—political, military, economic.

First, militarily: Senator Baucus has touched on the places in Asia where China is an indispensable player. On the Korean peninsula, the stakes are very high; we are in a game of chicken and brinkmanship this very weekend. Strategically, the Chinese are basically with us. But they play a different game, one with Chinese characteristics. They don't want to see Kim Joy Il with nuclear weapons and long-range missiles. Nor do they want to see instability on the penin-

sula. Probably better than anybody, the Chinese know what a really weird, strange regime Kim Joy Il runs. They're done good work in the past; they've also been ambiguous in certain areas. But, to get a solution, the Chinese have to be a player, and we have to play with them. Because when we work with China, North Korea tends to give; when we split with China, they take advantage of it.

Second, the South China Sea. Perhaps you saw the piece in the Outlook section of the Washington Post this weekend? China is playing a long-term game of taking over the South China Sea—no question about that. It's going to happen, not in this century perhaps, but in the next century. It is not going to be necessarily large or violent, but more of a creeping takeover. This is spelled out in their internal documents. They are modernizing their military with this objective in mind. Jiang Zemin mentioned this in effect at the National People's Congress. So you shouldn't be confused.

What you have a genuine argument over is: Can they do it? Are they able to do it? With economic growth, will China spend its money on unproductive military activity that puts them in confrontation with the rest of Asia and possibly with the world's most powerful instrument, the United States Seventh Fleet? They've got to calculate very carefully and intelligently—which is precisely what they are doing. But they have ambitions, there's little question.

The third area, of course, is the Taiwan Straits. There's a great deal of gong-banging, stage-acting and posturing: Both sides trying to use the Americans against the other side—a very old game. Please don't get sucked in. The Chinese and Taiwanese are working very, very closely to straighten things out—when they really put their mind to it. But it's much more fun for each one to use the Americans to bash the other side. So be careful here. We hope it isn't next year's issue. This year, the issue is intellectual-property rights; last year, it was MFN and human rights. Next year, is it going to be Taiwan? Let's not make it Taiwan. Let's work ourselves out of this one—and we can if we don't let the Chinese use us.

Finally, the economic situation—obviously a mixed bag. China has an excellent growth record. Reserves are up a hundred percent. The trade balance has gone from 12 billion negative last year to five billion plus this year. But China also has 150 million surplus laborers, along with real problems in getting some sort of a financial code—a taxation code that functions. You see progress, but it's shaky. So apply the same business judgment you would in any such country: Know your partner, know the local market situation, get a good contract, deal with the people in power to get things done. This all applies to China. There is no quick fix.

The good news I see coming out of the National People's Congress that just finished is—don't get me wrong on this one, don't caricature my position, but—a slow movement towards the rule of law. There are differences in the Chinese system about how this should be done, and how fast. But the arguments they are having are arguments we, as Americans, can comprehend: Subsidies to state-owned enterprises. Subsidies to agriculture. How you manage the distribution of money internally—how much you put into the state sector and how much you keep out in the free-market sector. Arguments about the rules governing property, bankruptcy, and central banking. And I see progress on most of these fronts.

But the most encouraging sign is a degree of autonomy coming out of the Chinese themselves. You find one-third of the people voting against a candidate for Vice-Premier.

You certainly have people showing their displeasure at Li Peng's work report—very few, but they show it. You, see across-the-board, the Chinese representative bodies, usually overstuffed, beginning to move in the direction of some kind of an independent posture—where they can exercise a function over the party people. What I think it boils down to, over the long haul, is the rule of law versus the rule of man. A very deep issue in Chinese history, it is not easily solved—but the issue emerged in this National People's Congress. And I think that probably is the most promising sign in China today. Thank you. [Applause.]

NIGEL HOLLOWAY. Thank you very much. I'd like to thank the Institute very much for inviting me to this pulpit. First of all, I want to say that this is the first time that I've actually spoken about China's future in this way. I'm a journalist, probably as many of you are—so, we have something in common. But I maybe can see things in a slightly different way from the specialist. I have obviously traveled in China several times. I lived in Hong Kong for three-and-a-half years. And I've written about Asia as a whole since 1982.

I want to start by emphasizing the magnitude of what's happening in China today. Living standards have been doubling every five years or so—something that has never happened in a country larger than 100 million people. What an extraordinary change taking place with one-fifth of the world's population. (Of course, India is starting to go through the same transition—but it's different in India.)

Second point: In China, we have a Marxist superstructure, superimposed on a capitalist substructure. This is a recipe for tension, dislocation and conflict in the long term. You tend to compare it with Russia, where political opening preceded economic reform—and we can see where Russia is today. The Chinese transition, running the opposite way, is almost as difficult. China's leadership is "riding the capitalist tiger" like the capitalist governments in eastern Europe after the second world war were riding the communist tiger—and they were swallowed up. (The only country that succeeded in pulling it off was Singapore, in the late 1950s, where Lee Kuan Yew managed to stifle the communist tiger.)

In China's case today the tiger, of course, is the capitalist system. Deng and his cohorts know they have to deliver the goods. But the goods contain the seeds of their own destruction, namely the destruction of the communist system. The stock market, its shareholders, these are people with stakes in an economic system antagonistic to the political superstructure. This could be resolved gradually without major conflicts. It could also, of course, lead to another revolution.

The third factor is the leadership transition itself. We are going through another unprecedented situation for China, with nobody of a similar stature or credentials to replace Deng—so we are heading into an open country with no real road map. The first stages of the transition has already taken place: Deng has fully retired. I don't think he has been a factor for about a year now since the military appointments, made about a year ago. He is not playing a role like Lee Kuan Yew, still a major factor in Singapore politics.

What precedents do we have for the situation in China under a collective leadership? We have the inauspicious one, of course, of Yugoslavia after Tito—obviously there are major differences between the situation of Yugoslavia and that in China. Perhaps a better precedent is Vietnam: Since the death of Ho Chi Minh, there has been a fairly stable collective leadership. But Vietnam, of course, faces the same structural problems that China does long-term.

Nobody knows of course, what will happen in China, just as nobody knows who's going to win next year's presidential election here. But it's even harder to predict where China will be next year because it's so opaque. Talking to specialists, which is basically what I do, I get most of this second-hand. But the consensus is that China will move to a sort of authoritarian-capitalist model. That I think is what it's aiming for—rather like Singapore, a prospect the United States and the west can perhaps deal with. Singapore is a free-trading nation firmly in the Western camp but also with significant political differences. But Singapore is a very small island nation and China is a completely different kettle of fish. Could we live with a Singapore-style China?

Another question: Will China break up after the demise of Deng Xiaoping. Again, the consensus among specialists is that this is very unlikely. But one of the points they make is how the interest groups—the interest-group politics really running China now—is like the woven web of a textile. Pull out one strand, and the textile will not fragment—because there are so many overlapping interests. For example, the military regions China is divided into do not exactly match the economic territory—they overlap. Another example is how the regional military command is rotated on a regular basis so they can't build local systems. At any rate, the consensus is China is unlikely to break up in the next 10 years.

What should American policy be towards China? Constructive engagement is certainly the right objective. The United States and the west need to keep drawing China out, into the wider world, and help to prevent its becoming a mercantilist military state. This is absolutely the right objective. Also, because the United States has such a wide array of interests in dealing with China, it should lay those out, and take a very hard look at where its priorities lie, rather than veering in one direction or another.

So I think the changes that are obviously taking place in U.S.-China policy over the last year have been in the right direction. This is absolutely the right way to go. The U.S. cannot bottle up China, nor should it. If it can help integrate China fully into world affairs, this will be one of the greatest achievements of the 21st Century. This requires an extremely deft handling to avoid the confusion we had a month ago when, in short order, we had conflict over intellectual-property rights, a dramatic reduction in MFN tariffs to China, and questions over the U.S. stance on China's application to the WTO. In the midst of all of this, we also had Hazel O'Leary in Beijing touting the contracts. It was confusing for China—and confusing for Americans too. I mean, what is American policy towards China? So it requires a very careful explanation: "We have this array of differing interests—but these are the ones that are important."

The shift in the U.S. stance towards China's WTO membership application is right—the U.S. is right to call for the toughest possible terms on China's application. China will probably become a member of the WTO by the end of the year, and that's the very best development. But I think it will be largely on the west terms rather than on China's.

If you look at all different aspects of China's relationships with the world and what Jim Lilley was saying about the rule of law, I sense a subtheme: China has to play by western rules if it wants to be a global player—whether it's arm sales, trade, and so on. And I think that the U.S. is right to stress that in all international forums.

I'd also like to make a plea that the U.S. should at every appropriate opportunity

stress its strongest possible commitment to Hong Kong's long-term autonomy. As we've seen over the last few years, there's been a significant erosion in both the Chinese and, I must confess, the British attitude towards what was agreed on paper in the joint declaration. This is a source of serious concern. And the United States should stress during said meetings with Lu Ping, the senior representative of Beijing on Hong Kong affairs, that the U.S. has a strong interest in Hong Kong's economic and political autonomy.

I'd also like to agree with Jim Lilley that the U.S. must avoid pushing the Taiwan card too far. This has obviously been the major danger, I think, since the Republican victories in the election last year, and needs to be watched very carefully. That's my final point. Thank you.

DREW LIU. Thank you, Senator Baucus. Thank you, Congressman Kolbe. And I would like to thank also the Institute for this opportunity.

China is perhaps entering the most crucial period of transition, and many of the changes have taken place over last dozen years or so. Those changes are fundamental and from bottom-up. And so China has entered the threshold of fundamental change. What is the background, the nature of the forces, behind this change?

First, I would like to emphasize the crisis China is facing. In the political area, as everybody is aware, China is facing a crisis of transition, with a crack on the top echelon. And it's reflected especially in this People's Congress Session: Complaints and grievances from the lower echelon, and from local officials, are aimed against the center. And, in both political and economic areas—a linking point—you have this corruption issue. It is economical as well as political. The Chinese system is unable to contain corruption, which is very much hated by the Chinese populace.

In economics, the problem of the system is more fundamental than at first glance. The whole structure of communist state ownership has been very much undermined. But the new system has not been established during this transition. The transition is from the one kind of a planning system to the market system—and you have this plundering of the public funds, and public property, by officials. There is no law—it's a jungle. You [in America] talk about Ivan Boesky; in China today, everybody is Ivan Boesky. The Chinese people perceive this as very unfair, [a profound] injustice. Certainly in the social arena, you have hundreds of millions of people migrating from the rural area, from the inner provinces, to the southeast provinces. And these are the sign posts, in the Chinese history of big trouble, confirming a dynasty's end. The Ching dynasty was very much ended in that way—migration was part of the reason.

So there are three major scenarios. First is the continuation of dictatorship, the single-party model, maybe. Second is the opening of a political system and gradual transformation into democracy. The third one we could see is social unrest. The [inaudible word] of the Chinese society and maybe the breaking-up of China.

I would think the first scenario is growing less likely because of the lack of a strong man to hold China together—a Deng Xiaoping, a figure like that. With the power base in both military and party, and the state's bureaucratic system and in the Chinese political culture, the demand is for some kind of strong man to hold it together. It's like a reverse pyramid: One man at the bottom, everything is on top. The bottom goes away, and then you have the collapse. The current leadership of Jiang Zemin is less

capable of playing the same kind of integrating role as Deng Xiaoping. And [Chinese society lacks] the tradition of politics. Once in transition, divisions multiply. So continuation of the dictatorship is also unlikely. In all systems, the social forces formed during the reform process have been unable to be controlled.

The second scenario is the deep social unrest. But we think the biggest opportunity [occurring with this scenario would be] the gradual transition to a constitutional democracy. And let me say how I envision this could happen. At the China Institute, we do studies, mainly in the integrated area of theory in the practice. And we try to combine the vision blueprinting with actual process of change. What we find is that China's change in progress, towards political openness and the signs towards democratization, is always the result of a muddling through. It's not designed, it's not planned. It's not in anybody's mind.

As a result, many consequences are unintended. The different interest groups need to reposition themselves—but they don't have commonly accepted rules of the game. The process of democracy could be introduced into this situation—even though people may not be aware of the consequences. For instance, the mechanism of free elections, the mechanism of checks and balances, and the mechanism of [an impartial] monitoring device—all could be gradually introduced into the process.

Now secondly, it's not a moral process, like [in America]. Here, it's the ideal—you know the Founding Fathers, you know about universal rights. In China, it's not like that; it's really a process of people. "See, this is we have to do. This [set of democratic mechanisms] is a way we can compromise without going total chaos [and risking] civil war."

So, in this [potential] process, what is the position and role of the western world? How is this important process linked to the western world in general and the U.S. in particular? Shift the angle a little bit to say the importance of the U.S./China relation in the immediate future. It's very paradoxical and, I mean—there's no China policy. Perhaps it shouldn't be a "China policy"—because of the two fundamental paradoxes in dealing with China. One is to deal with China on an international level—where you treat China as a society, as a state, as a collective. The other is the China of individuals.

Let me offer an example: On intellectual-property rights, we have monitored events, the process, very closely. Then we receive responses from different sectors among the Chinese—and I was surprised. Because, from our point of view, it is fair for China to abide by international standards. But I draw your attention to the internal Chinese response to this whole issue—to demonstrate why U.S. policy has to deal not only with China as a state and a collective, but also reach beyond that level, to the more individual level.

The Chinese look at intellectual-property rights, as the government crack down, and many Chinese businessmen think it's unfair—even though, from outside, we look at it as fair. Why is it unfair? Because in China there are more pressing issues—like fake medicine. Hundreds of people die as a result of fake medicine. One report in the Chinese media about hundreds dying—from fake wine made from industrial alcohol. People drink it and go blind. Things like that are more pressing issues than intellectual property. [America wants the Chinese] government to, you know, select intellectual-property rights and push them very hard. What the Chinese populace see is the government caving in to the interest of the foreigners—without taking care of the serious domestic issues.

One more thing about pressing China. When we look at an event, the nationalism is

always in the back of mind. Some of the same complaints of national because of this disparity between the two systems. So what do you perceive the fair—"justice" in the global and international perspective, we perceive as injustice and defeat into some other forces that may not be productive. I'm trying to add perspective; I'm not saying specifically do this or do that. I offer an angle on China's present position in the system—incompatible with the democratic and market system on one hand; and, on the other hand, wanting to enter into the world community.

So the political transformation, the liberalization, democratization are really the key to the future of the U.S./China relations in the long-term may not, you know like a very pressing issue, tomorrow in the media. But it's like the under current that we will carry the problems or your [inaudible word] into a specific problem into U.S./China relations. If China is not going democratic, and that is very unlikely I would say. The Chinese will observe the law of the, observe the general international accepted standards only by the doing system to be compatible, and then you can have a more better and more productive relationship. Thank you very much.

Sen. BAUCUS. I'll take the liberty of asking the first questions. A lot of discussion so far has been about the United States relationship to China. I would just like to turn the tables and ask our panelists: How the Chinese see us? I mean, do they see us as being fair or unfair? You mentioned that we're pushing intellectual property protection, for example, to the local people. Say, gee that's not according to our priorities in China. But do the businessmen in China or the Chinese leadership recognize or don't know the United States has a legitimate beef after all. And perhaps they should follow the United States in trying to protect intellectual property. Or, on the other hand, are they just using local conditions as a cover to not do what they know they should do? My basic point is: What's the Chinese leadership perception of the United States? For example, is this nation seen as relevant around the world these days? And, if we're relevant, where are we relevant to how they see their future? Jim, I'll give you that one.

JIM LILLEY. I think the main fear in China with regard to U.S. attitude is that the U.S. looking for a boogie man or looking for an enemy, after Russia, to settle on China and will adopt the sort of containment policy which ever way you would like to put it that was adopted towards the Soviet Union. And so that's, I think, one of the major reason why the constructive-engagement policy is the right one to draw China out to avoid the impression that United States is trying to encircle China and contain it.

JIM KOLBE. Well I listened last night at a dinner to the Minister for, Director of, Administrator for Hong Kong affairs in China described the commitment that China has to maintaining the rules of law as he puts it and the agreement that was reached with Britain over the transition of Hong Kong to China. And I'm wondering if any of our speakers, this morning's panelist would comment on the issue of how important is the transition to Chinese rule in Hong Kong. What will the rest of the world be watching in this transition and what do you think we can expect as this transition takes place?

DREW LIU. Hong Kong issue is a very touchy issue in the sentiment of the Chinese mentality because it would cause the Chinese a humiliating defeat. But Hong Kong is also a very hot—like what we say in Chinese, a hot potato: You hold it, you want to eat it, but it's hot. And there is paradox, of course: Hong Kong is resources for the foreign currency and, on the other hand, Hong Kong is

the stronghold of liberal ideas, and may help to spread political instability. In reacting to that, how will the Chinese government deal with Hong Kong?

I see several possibilities. I think the most likely response is to contain Hong Kong. Right now, there's easier traffic form Hong Kong to China and then, if Chinese government step in, it most probably would maintain Hong Kong's current system: Let Hong Kong still play the role it has been playing. On the other hand, in order to prevent Hong Kong's penetration, especially in the media, China would make it more difficult for people to travel from Hong Kong to China and from China to Hong Kong. And I think that seeing this as one possible solution shows the mentality of the Chinese leadership.

So what we are suggesting is, Hong Kong is really constructing, of course, opening wider China's market, marketization and giving China the stimulus to go further in marketing reform, abolishing the kind of state-controlled ownership structure. And on the other hand, it can gradually bring, you know alternatives, some models, examples of how to live and operate in a more democratic, more efficient society.

So we propose that the following institutions, especially cultural institutions, may go into Hong Kong right now and then enlarge their activities—especially with regard to the linkages inside China. For instance, educational projects. You know, many cultural things may not be political—non-political, I would say. You know, purely educational, but by doing this, by joint venture, joint project, then Hong Kong and China can be linked. If they try to cut off Hong Kong from China after 1997 in administrative ways, then China's internal education would also suffer loss and damage. This is a very crucial time in Hong Kong, definitely, it is very, very important for the future of China. Thank you.

JIM LILLEY [inaudible words] is basically allow free market forces to go and strangle the political process in the cradle. And they have a lot of sympathy from Chinese in Hong Kong who think this western bourgeois democracy is really not applicable. So I think you've got somewhat of an economy there in terms. Bob, you know the formula very well: Let the free-market process work in Hong Kong. Keep it the goose laying the golden eggs. Have commercial rule of law in Hong Kong. Persist it for 50 years—but do not allow the political process to work and to contaminate China. That is the formula they have—yes, their formula. I'm talking about how the Chinese view Hong Kong.

The question came up last night, as the Congressman knows. Somebody asked our distinguished visitor why he didn't deal with the democratic party in Hong Kong, the dissenters. And what he said in his very cogent and very frank way is this: The basic law of Hong Kong calls for freedom of press, freedom of assembly, freedom of da-da, da-da, da-da—he sounded like Jefferson. Of course, everybody knows that isn't what happens. And if, the basic law says very clearly, we're going to have a fully elected, [inaudible word] in Hong Kong. So what are you worried about?

The fact is, course, that most people say the Hong Kong process works just fine, but scattered angry people keep pushing a "bourgeois democracy" that doesn't really make much sense. "They are all trained in England. They talk English better than we do. They don't really represent the grassroots." Fact is, these people keep getting most of the votes. There is a feeling out in Hong Kong that they really do deserve democracy. And there are people voting for Martin Lee

and Company. [Inaudible words.] They're voting for them. It's a rather positive sign.

MODERATOR: Okay.

Sen. BINGAMAN. I wanted to ask about our trade, growing trade imbalance with China. As I see it, the first year of the Bush administration, we had about a \$3 million trade deficit with China. This year, this last year, we had about a \$28 billion trade deficit with China. And China has only began to export: As a share of their gross national product, China is not near, doesn't devote near as much of their economy to export manufacture as do other industrial countries. So the potential for increased manufacture for export is great. I see this growing geometrically over the next five to 10 years and, in the next century, a greater U.S. trade deficit with China than we have with Japan today—with no way to turn that around. This will hamper our ability to produce or maintain manufacturing jobs in this country. I would be interested as to whether I am right or wrong in that prediction, and if there is some solution other than continued hand-wringing and teeth-gnashing.

JIM LILLEY. I'll take a crack at it. That is what Mickey Kantor's trips were all about. I don't think Mickey is sitting in a corner gnashing his teeth—he's going to the Chinese and saying: Open your market. I think this is all about China getting into GATT and WTO. This is why they want to come in as a developing nation. Fifteen percent, 22 percent tariffs, developed nation, fifteen percent. Three thousand items are put on the block. They've got to protect inefficient dinosaurs in the state-owned enterprise sector. They are frightened of what GATT and WTO will do to them. So we can face up to this problem the way we faced it in other areas where it has worked—Taiwan and Korea. It hasn't worked in Japan, unfortunately, because of their closed system. But we have been able to close some of these trade gaps by persistently demanding they pay royalties on intellectual properties—our strong suit, where we can export a great deal.

As Jack Valenti said, our exports in the entertainment industry are one of our largest exports. In some sectors of China we are comparatively effective. So you go after those. I'm talking about power. I'm talking about aircraft. I'm talking about automobiles. I'm talking about electronics. The Americans have to get in there and compete as strong as any nation in the world. We aren't going to win the China market by getting quotas or trying to force them into some sort of managed-trade arrangement. You get the Chinese to come across and change their trade surplus with us by opening their market. I think this is what Kantor is trying to do, and we should support it 100 percent. We are beginning to make some progress on this. But it's going to be a long hard road.

MALE VOICE. The question that has come to my mind is the degree to which the other countries—let's say Europe, Japan and others—are using our MFN position really [inaudible words], and are saying to China: No WTO membership until you open up and so forth. I agree that Japan and the others are taking advantage of us by working with the Chinese leadership.

JIM LILLEY. I think, Senator, you make a very good point. The Europeans and Japanese love to hold our coats while we go in and slug it out with the Chinese. We finally get the agreement, then they all follow to take advantage of it. Let me make a contrast. On human rights, it was totally bilateral. Nobody else had anything to do with our position. And this is what undercut us, or it's one big reason. The business community did not support us. No nation in the world supported us. They said, "What a

bunch of goofballs. We're going to pick up the pieces of the American effort." But, on GATT and WTO, we got a lot of support; on IPR, we got a lot of support. They aren't as aggressive as we are, the don't have their Mickey Kantors—but they did come in. And they are going to support us to a degree on this. Of course, most of them are intellectual-property right violators too! So, there's all sort of hypocrisy mixed into this arrangement.

But it seems to me that in WTO and IPR, we are on solid ground with our friends, but as usual, Senator, the Americans have to take the lead.

MALE VOICE. [Inaudible words.]

MALE VOICE. Pardon.

MALE VOICE. [Inaudible word.]

JIM LILLEY. Well, I supposed what we try to do, at least we tried to do this when I was in GATT, is arrange tougher conditions on the Chinese. We would working with EC. And one of the, rather, I suppose I'm talking too much again. Through the EC and directly, we used to say to the Chinese: "You know, Taiwan's an applicant too. And they are meeting all of the standards of GATT, WTO. If you drag your feet, it could be possible that Taiwan would get it first." This was a very sobering influence, I think. It works about once or twice—that's all. And then you've got to get better tactics to work on it.

But the more usual argument, and you get European support on this, is if you don't shape up, you aren't going to get the technology you want. An the do lust for technology, they want the best—that's all you hear from the Chinese. So this is where you put the brakes on. We don't have COCOM anymore, but some sort of an arrangement with our allies. The Chinese are very dependent upon Europe and Japan to get some sort of common policy for when they violate too much by "going their own way," as people say, you can bring to bear collective pressure.

This approach worked very well in 1990 when I was in China. We worked very closely with Japan, the Europeans, Canadians, Australians, New Zealanders—to exert leverage. Because in the international bank, let me just make one point, China is very dependent on higher [inaudible word] loans. They are the biggest recipients in the world. It's two to three billion dollars a year. It may not sound like much. But it is crucial when matched with a third yen loan package from Japan, and most every nation from the United States. Don't use it as a club publicly, but quietly and effectively, through diplomatic channels.

NIGEL HOLLOWAY. I just want to say that the trade imbalance within the U.S. and China is really quite extraordinary. U.S. exports to China are less than \$10 billion and China's exports here approach \$40 billion. A lot of it has to do with the restructuring that is going on. The question then is, is China going to become another Japan, the capitalist but closed market. My hunch is it will not—because the corporate structure in China is evolving very different from that in Japan. Japan has these [inaudible word] networks of companies that basically collude through long-term equity arrangements. But the Chinese don't do business that way. I think that's something to bear in mind.

What we really have, as Jim says, is a market-access question. China is starting to open its market. If you look at the market within China, there are enormous barriers for one province trying to trade with another. They basically compete with each other, and stumble over each other, and try and prevent goods from one province going into another. And this is the area where the World Bank is especially keen to see major

changes. And I think it's also one the U.S. should focus increasingly on: If it can pry open China's market, this will be the biggest factor in increasing democratization in China.

Sen. BAUCUS. Stand up please. Thank you.

QUESTION. [Inaudible.]

JIM LILLEY. I'm glad you asked for clarification, because there may be some misunderstanding. I'm not saying the United States will stay out of this thing. We are involved up to here. We have something called the Taiwan Relations Act, which is the law of the land. We also have an increasingly strong relationship with China. What I resent very much is lobbying groups and foreign ministry tantrums towards the United States to try to get us to become their point man on beating up on the other side. That's what I don't like. We've got a lot of leverage in this deal and I think we should use it—because both of them really need us in this one.

But don't get trapped into a Chinese "tong war" on it. Keep your powder dry. Keep managing it carefully. Don't make a great big announcement of a Taiwan policy review and beat the gong saying this some sort of a big deal, when it turns out to be a big fat zero and everybody knows it—the Chinese become furious at the policy review and the Taiwanese are disappointed. Much better to keep your mouth shut and work a little bit quietly on this thing as it is run by all of the other administrations.

By the same token, you have to be careful in terms of Chinese sensitivities on this. You also have to be careful in the Taiwan process, but as I was saying to Bob Kupp earlier, we have been pushing democracy in China for about 35 years. I used to beat upon the Taiwan government regularly about getting the dissidents out and letting the Taiwanese back in, letting the political process work. We succeeded. And now you've got a flourishing democracy, a chaotic democracy, and even fist-fighting in the legislative halls.

JIM LILLEY. On the other hand, for the United States to begin stumbling around in the thicket of Taiwan domestic policies, watch your step. The responsible businessmen and politicians in Taiwan know the limits of what they can do. And they know that breaking with China is not in their interest. But this doesn't stop demagogues and others from raising hell on the basis of political strategy. On the other side, on China's side, if I hear "sacred sovereignty" one more time, I think I'll vomit. I've gotten into a lot of trouble by noting how it sounds like Gunboat Diplomacy from the 19th century. "It's what you Chinese hate the worst. Don't talk about [engaging in] it yourself; don't start practicing it. Don't start flexing your muscles and saying if we don't get what we want, we're going to use force. This doesn't make any sense."

The irony is that China and Taiwan are getting along extremely well—solving problem after problem. Taiwan just hosted the highest-ranking Chinese delegation in history and many, many leading figures in the political, economic and cultural realms deal with their Chinese friends. You have Taiwan businessmen going over there to spend four hours with Jiang Zemin giving him advice on how to make a new central bank. You've got people from Taiwan going over there and reorganizing all of their deep ports—a major priority in China. You got them keeping the whole economy bustling. Of course, there's speculation, a few nasty little elements of it, but it increases the growth rate.

So all I can say to America is: Be careful you don't, somehow or another in the next year or so, get trapped into this ugly little war or this ugly little fracas they are trying to create. It's not in our interest to do so.

Sen. BAUCUS. Any questions?

VOICE. [Inaudible words.]

NIGEL HOLLOWAY. Yeah. Let me just give you three principles of what's happening in China right now. You have three things. You have what we call persistent feudalism, which is Confucianism—no, chaos collectively. This feudalism is part of the Chinese structure. This mixes in with decaying socialism. And this is socialism's ingrown privilege, a party privilege. Third, you have rapid capitalism. You have corruption, nepotism and growth. They all jam together in today's China.

If you have this growth and if you have feudalism, and if you have this decaying socialism, what results is great disparities of wealth between provinces, et cetera. And the millions of people begin to move towards the productive areas. It's very hard to control because these people live in camps. They have three and four children. They pay no attention to birth control or the national policy. It drives the Chinese wild—who, of course, have some rather draconian methods to keep things down. Basically, I think they have been very successful in keeping control of the population—but it's not very pretty to look at. They think it's crucial to the control of the situation.

What they are trying to do now in a very, very concerted effort is beginning to move investment capitalism into the hinterlands, but they've got to make it competitively attractive, and that's hard to do. They recognize the problem; they recognize it's very serious. It's right at the heart of how you reform state-owned enterprises. Because the conservatives are saying, keep the money flowing. Others say let them go bankrupt and take care of this thing through other means. And it ends up as gridlock in many cases. But, at least, I think they are acutely aware of the problem and are trying to deal with it.

Sen. BAUCUS. You have time for one more question.

QUESTION. [Inaudible words.]

DREW LIU. We touch on the topic of the trade imbalance as China opens up its market. And I would like to say something more about the fundamental problem, the system problem, the structural problem. One of the things is transparency of the legal system. And if you don't have transparency—when the local government, you know, the sector cannot break their own laws—this instantly creates barriers. For instance, on the WTO: The center wants to enter the WTO. The local, some of the local wants to enter the center also, but not without some incentive. But there's some problem in it. That is how to guarantee the Chinese abide by these laws and the standards. And, there are loopholes, you know, that are unpredictable. Our future in China comes without a well established legal system, without transparency and due process.

And the second thing is the political system. For instance, entering the WTO, whether China can do it or not politically, is a question. If, in entering the WTO, the center enforces the regulations—you know, opening its market—then maybe thirty percent of the state-owned workers will be unemployed. A great political problem and a great risk to the Chinese leadership. But are you going to take the risk or not take the risk? And what if the risk becomes threatening and then it [the new policy] reverses in some way. Much uncertainty links to the internal process of the Chinese system.

JIM LILLEY. Okay. I just want to make one comment on agriculture. A terrible problem for China is that agricultural land is shrinking; the harvest is not good. They are going to import more and more grain. It's going to be a big problem and so I would say your ag-

riculture-export possibilities are considerable. Some estimates have China importing as much as 100 million tons of grain by the next century; they have made some bad converting mistakes in terms of agricultural land, industrial land. The solution, people say, is what they call village- and township-enterprises: Basically capitalistic, they are put into the countryside, are use surplus agriculture labor to create small consumer items. But they've gone about increasing agriculture production by importing chemical fertilizers, by developing their own plants. It's really very, very difficult for them. And I see a big market for agricultural products.

Sen. BAUCUS. Okay. We have no more time! Let's give a great round of applause to our panelists: Drew Liu, Nigel Holloway and Jim Lilley. Bob mentioned a packet of information which I think will be very interesting for everyone. I encourage you to go pick up a copy as you leave. I want to thank CELI very much for hosting this event—I want another soon. Thank you.●

DECISION TO EXTEND NPT INDEFINITELY

● Mr. PELL. Mr. President, international efforts to curb the spread of nuclear weapons were given a tremendous boost today with the decision by more than 170 nations to extend indefinitely the Nuclear Non-Proliferation Treaty. The U.S. Arms Control Agency and Ambassadors Ralph Earle II and Thomas Graham, Jr., deserve our deep appreciation.

The decision by the participants in the NPT extension conference demonstrates their willingness to trust us and the other nuclear powers to continue with the effort in SALT and START to reduce our strategic nuclear arsenals, to strive eagerly and effectively to bring about an end to nuclear testing, and to be unflagging in efforts to spare the world from nuclear war and the threat of nuclear war. We have today incurred a renewed obligation to prove to those who trust us that their trust is not misplaced.●

TRIBUTE TO INTERNATIONAL HERITAGE HALL OF FAME INDUCTEES

● Mr. LEVIN. Mr. President, I would like to recognize the accomplishments of four distinguished community leaders from the Detroit area. These four individuals will be inducted tonight, Thursday, May 11, 1995, into the International Heritage Hall of Fame housed at Cobo Center. The inductees have been selected for outstanding service to their respective ethnic groups and the community at large.

The International Institute of Metropolitan Detroit has been working since 1919 to assist immigrants who have arrived in the Detroit metropolitan area. The inductions of the four 1995 honorees will bring the membership in the Hall of Fame, which began in 1984, to 56. The inductees are U.S. Circuit Court Judge Damon J. Keith, the late Daniel F. Stella, Dr. Helen T. Suchara, and Mrs. Barbara C. VanDusen.

U.S. Circuit Judge Damon Keith is a former president of the Detroit Hous-

ing Commission and former chairman of the Michigan Civil Rights Commission. An African-American, Keith has served as a Federal judge since 1967 and was chief judge of the U.S. District Court for Eastern Michigan from 1975 to 1977. He is a graduate of West Virginia State College, the Howard University Law School, and Wayne State University School of Law. He also holds honorary doctorates from those 3 institutions and 24 other colleges and universities. He has held numerous civic positions including national chairman of the Judicial Conference Committee on the Bicentennial of the U.S. Constitution, chairman of the Citizens Council for Michigan Public Universities, and general cochair of the United Negro College Fund.

Daniel Stella was president for 10 years of Friends of the International Institute. An Italian-American who died last July, Stella was instrumental in the establishment of the Hall of Fame and an active promoter of relations between Detroit and its sister city, Toyota, Japan. Mr. Stella was also a partner in the Detroit law firm of Dykema Gossett. He was a graduate of the Harvard Law School, the College of Holy Cross, and the London School of Economics and Political Science, and a member of the Michigan and California bars, among others. He was a director of the Detroit and Windsor Japan-American Society and a member of the Association for Asian Studies, American Citizens for Justice, the Michigan Oriental Arts Society, and the Founders Society and Friends of Asian Art of the Detroit Institute of Arts. Mr. Stella also served in Vietnam with the U.S. Navy Judge Advocate General's Corps.

Helen Suchara, a retired educator, last served as director of the Office of Student Teaching at Wayne State University. A Polish-American, she was a Peace Corps volunteer in Poland from 1990 to 1992 and has begun a new career in public service since her retirement. She holds positions on the Madonna College Social Work Advisory Board and the board of regents of Saginaw Valley State University. She received bachelor's and master's degrees from Wayne State University and a doctorate from Columbia University. She taught at WSU, Columbia, the University of Delaware, the University of Virginia, and Wheelock College in Boston, and earlier in public schools in Detroit and Howell, MI. She has worked on the boards of the International Institute and Friends of the International Institute. She has also worked in affiliation with the Polish-American Congress of Michigan Scholarship Committee, the Catholic Social Services of Wayne County, the Michigan Elementary School Curriculum Committee, and the Dominican Sisters of Oxford Formation Committee.

Barbara VanDusen is a member of the executive committee of Detroit