

Originally Processed With FOIA(s):  
2012-1098-F

FOIA Number:  
2012-1098-F

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**Collection/Office of Origin:** Legislative Affairs, White House Office of  
**Series:** Dyer, James W., Files  
**Subseries:**

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**OA/ID Number:** 08451  
**Folder ID Number:** 08451-005

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**Folder Title:**  
China MFN [1]

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Stack:	Row:	Section:	Shelf:	Position:
<b>G</b>	<b>20</b>	<b>11</b>	<b>6</b>	<b>1</b>

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REQUEST FOR APPOINTMENTS

To: Officer in charge  
WAVES Center  
Rm. 065, OEOB

Please admit the following appointments on Wednesday, June 19 1991  
for The President of \_\_\_\_\_

<u>NAME</u>	<u>DATE OF BIRTH</u>	<u>SOCIAL SEC. NO.</u>
Senator Bob Dole		
Senator Bob Packwood		
Senator Nancy Kassebaum		
Senator Mitch McConnell		
Senator William Roth		
Senator Orrin Hatch		
Senator John Danforth		
Senator David Durenberger		
Senator John Chafee		
Senator J. Bennett Johnston		
Senator John Breaux		
Senator James Exon		
Senator Brock Adams		
Senator Chuck Robb		

*Bavus*

MEETING LOCATION

Building White House  
Room No. Cabinet Room  
Time on Mtg. 3:00 pm

Requested by Fred McClure/Becky Anderson  
Room No. WW 2nd fl Tel 2230  
Date of Request 6/18/91

Additions and/or changes made by telephone should be limited to five names of less.

WAVES Ctr. SIG/OEOB - 395-6046 or WHITE HOUSE - 456-6742

UNITED STATES SERVICE

SSF 2037 (03-81)

Dole

Baucus letter

Johnston

OK w/ Baucus

Danzon

does cond. MFN want to deniel.  
Is MFN to be a foreign policy tool.  
Right on policy.

Chafee

EAGLE very persuasive.  
Hist. is that of isolationism  
we want bully them w/ threats.  
Bus provides jobs w/ our association  
Jobs thing in R.I.

Exon

haven't made decision,  
Major concern is 2ms 5 jobs to  
3d world.

Baucus

applied approach  
Similar to fast track  
Can get more support if we  
indicate precise actions on  
trade, Natl sect, multi lending  
prohib. slave labor.

Roth

working w/ Baucus  
agree w/ EAGLE on need to  
Continue MFN  
review Taiwan-GATT

Brezuk

haven't decided, China out of touch  
Civ rights, human rts,  
people think we're giving them  
something.

Hatch

Grab China hand, want to support Pres

Adams

prepared to support MFN, 1 yr. w/ conditions  
severe political problem if we don't  
need meaningful political reforms.  
missile tech control regime  
product barriers.

then after 1 yr it would not be  
extended.

Chinese have done horrible  
things

can't take on Taiwan Sq.  
oppose support simple res. or dis.

#

Kasich

lose my leverage, have sbm down  
Signed Baucus letter.  
Taiwan-GATT does it create difficulty

Duren

Students - only one w/ partnership  
hope process is best MFN - tentative  
process, close to blank check.

Robb

Sense of deja vu  
Logic + reason  
resistance - PR, emotion  
Use bully pulpit.  
All logic on our side.

McCormack

Almost persuaded GB correct  
any additional steps?

Chen

Commitment to each other.  
Rised today.

June 18, 1991

U.S. Senate  
Washington, DC

Honorable Senators:

We are a group of former Chinese government officials. We are among those who initiated and implemented the reforms of the past decade. After the events of 1989, we lost or left our government posts and are currently studying and working in the States.

Based on our experiences, we support President Bush's proposal to renew China's Most Favored Nation trading status. We fully believe that this will be in the best interests of the Chinese people and the United States. We offer the following reasons:

1. The termination of China's MFN status will damage the cause of economic reform in China, especially in the non-state and export-oriented sectors, which are the driving force for the transition from a state controlled to a free market economy.
2. We respect efforts to improve human rights in China. However, we also believe that the attachment of human rights conditions to a renewal of MFN is the wrong way to further human rights in China. Instead, it will create more difficulties for reformers within China. Cancellation of MFN status is the last thing that China's remaining reformers want, while the acceptance of written conditions would mean political suicide for them.
3. Conditional extension of MFN will embarrass political dissidents inside China by making it appear that their demands have damaged the economic interests of millions of people who now benefit greatly from MFN.

China is now in a difficult period of transition. We reformers, like other Chinese, hope for a democratic and prosperous China. We also believe strongly that a peaceful and gradual transition is in the best interests of the Chinese people and other nations as well. MFN has and will continue to contribute to that peaceful transition.

Thank you.

Li, Xianglu  
Former Personal Assistant of Zhao Ziyang  
Director, Institute of International Affairs, CITIC  
(212) 785-1838

Lu, Mai  
Former Dir., Experimental Area Office for Rural Reform,  
Research Center for Rural Development of the State Council (RCRD)  
1309 Commonwealth Ave. #1  
Allston, MA 02134, (617) 787-1581

Luo, Xiaopeng  
Former Trustee of RCRD  
Senior Researcher of Development Institute, RCRD.  
Fairbank Center of East Asia Studies, Harvard University  
Cambridge, MA 02138, (617) 625-1214

Wang, Xiaoqiang  
Former Deputy Director of the Institute of Economic System Reform, China.  
University of Pittsburgh, (412) 681-3439

Zhou, Qiren  
Senior Researcher of Development Institute, RCRD.  
UCLA, (213) 398-5392

THE WHITE HOUSE  
WASHINGTON

June 10, 1991

To: Doug Paal<sup>m</sup>  
From: Jim Dyer *JD*  
Re: Chinese Missile Sales

Doug, I assume you saw the article in Sunday's "New York Times" regarding proposed missile sales to Syria and Pakistan. Needless to say, if this is true, this can be damaging to our MFN efforts.

Do we have any information on the validity of this article or do we have any press guidance on what actions we propose to take?

I'm also attaching a letter drafted by Baucus for signature by several of his colleagues on MFN. It seems to me that if we can meet his concerns, we may be able to recruit him and his colleagues to our side.

Any thoughts?

attachment

Dear Mr. President:

Congress will decide in the next few weeks whether to accept your recommendation and extend most favored nation trade status to China. We are writing to share our concerns.

In the debate over the appropriate U.S. policy towards China, one thing is clear: China's behavior must change. The United States has serious foreign policy concerns with China. Every American remembers the vivid images of the Tiananmen massacre. In the two years since Tiananmen Square, evidence of democratic reform has been scant at best. We also have learned of Chinese sales of advanced missiles to Syria and Pakistan, and of nuclear technology sales to Algeria.

The United States also has serious economic concerns with China. The U.S. Trade Representative's annual report on foreign trade barriers lists ten pages of Chinese barriers. China maintains restrictions including a preclusive licensing system, discriminatory testing and certification standards, and outright import bans. China also fails to protect U.S. intellectual property, resulting in enormous losses to U.S. producers of films, books, chemicals and pharmaceuticals.

The United States cannot continue to tolerate Chinese intransigence. We must tailor active responses to our wide ranging concerns. But MFN is the wrong tool for the job. Revoking MFN would not promote human rights in China. Instead, it would punish China's most progressive regions and Hong Kong.

Revoking MFN also would hurt Americans. China is an important market for U.S. goods ranging from wheat to airplanes. If MFN were revoked, China almost certainly would retaliate against U.S. exports. The Australians, Canadians, Europeans and Japanese are ready to fill the void. No other country is contemplating cutting off China's MFN.

We believe the Administration must be more active in addressing American concerns with China. You have taken meaningful steps in some areas. You have moved to protect U.S. intellectual property under provisions of the 1988 Trade Act. You also have taken steps to restrict certain technology transfers to China in response to its missile and nuclear sales. These steps are examples of the types of actions the U.S. should take.

We urge you to take appropriate actions in other areas. Human rights is a foremost concern. Revoking MFN would be counterproductive. But other steps can be taken. For example, the U.S. could reinvigorate its opposition to multilateral loans for China. The U.S. also could take strong action under U.S. law to address China's unfair trade barriers. In the area of nuclear and missile proliferation, the U.S. could immediately negotiate for strict, multilateral technology

restrictions conditioned upon Chinese adherence to accepted international standards.

These measures do not represent an exhaustive list. But it is essential that the Administration take concrete steps. If Congress is to extend China's MFN, we must see tangible evidence that the Administration is taking action. We look forward to hearing your response to our concerns.

## THE WHITE HOUSE

Office of the Press Secretary  
(Kennebunkport, Maine)

For Immediate Release

May 27, 1991

REMARKS BY THE PRESIDENT  
IN COMMENCEMENT ADDRESS TO YALE UNIVERSITYYale University Quadrangle  
New Haven, Connecticut

11:55 A.M.

THE PRESIDENT: Thank you very, very much. President Schmidt and members of the faculty, and the Yale community, fellows of the Yale Corporation, and especially with congratulations to my fellow honorands -- it is an honor to be here today. Mayor Daniels, it's nice to be back in the city. And most importantly, to the graduating students -- congratulate each and every one of you. (Applause.) May I single out Yale's band. They've cleaned up for today, and they've never been better under Mr. Tom Duffy. Thank you, sir. (Applause.) And thank you for the warm welcome. Si res prehensio en cano est non oves sic vacio. That means, if you're holding up the sign, you can't throw eggs. (Laughter and applause.)

I remember my own commencement. Like so many of my classmates, I'd come to Yale fresh from war -- ready to make up for "lost time." I remember our impatience and our optimism. And we sensed upcoming adventure. I imagine it's the same today for all of you. It's almost as if life is about to begin -- that is, if the commencement speech ever ends. (Laughter.)

Twenty-nine years ago, President Kennedy stood right here, and my dad was honored with him. And he said, "I have the best of all worlds -- a Yale degree and a Harvard education." (Laughter.) He had it wrong. I've got the best of all worlds -- a Yale education and a Yale degree. (Applause.)

My day was no different. There's an excitement in the air, and Barbara and I spent a good part of our senior year thinking about, literally, becoming farmers. We talked about life on the land and rising early and working hard and raising a crop and a family. And we looked into the finances of running a farm. In the end, we decided against the whole idea. We realized that when it came to pigs and chickens and cattle or corn, we didn't know the first thing about farming.

So, of course, there was only one alternative: I went west and became an oilman. (Laughter.) The days after -- the day -- the very day after the ceremony like this one, I traded the familiar surroundings of this beautiful old campus for the dust and grit and searing heat of the Lone Star State.

Odessa, Texas, became my world. And yet far beyond 37 Hillhouse Avenue where Barbara and I lived, or the Flatlands of West Texas, change rocked the whole world in ways that would affect us all for more than 40 years. On June 20th, 1946 -- my graduation day -- the United Nations sent out its first peacekeeping force -- 49 men from the United States and six other nations -- to bring the promise of peace to the Middle East. And on that day, the Soviet Union tried to clamp down on the free sectors of Berlin -- the Berlin Blockade had begun. And on that day, Congress, after an all-night session, passed a bill to help the nations of war-torn Europe. That package would become known, as we all know, as the Marshall Plan.

Today's world -- your world -- is every bit as

MORE

astonishing. Back in my day, opportunity knocked. And yours -- your pager beeps.

We have seen in two short years the end of a long era of Cold War and conflict. The Iron Curtain collapsed -- it's gone, the wall is down. (Applause.) And with it the myth of an ideology called communism. On the barren ground that once separated East and West, the democratic idea sprouted anew.

As a nation, we can take great pride in this triumph. It vindicates more than 40 years of American vigilance -- a lesson learned on the battlefields of Europe and the seas of the South Pacific -- that this nation could no longer pursue a policy of "splendid isolation."

The democratic renaissance in Central and Eastern Europe -- the blossoming of democracy here in the Americas -- the emerging consensus on the African Continent that democracy is the road to development -- none of this would have taken place if America had turned inward, away from the challenges of a new world.

So today, as we seek to promote freedom and democracy and human rights -- as we seek to strengthen stability within the international community -- an America confident enough to engage the world remains our best hope for peace, security and shared prosperity. (Applause.)

Look in every corner of the globe and you will find that the American example has consequences. When we reach out, we offer more than cars or grain or MTV. We exemplify an ideal -- an ideal that conquers circumstance and suspicion, that conquers despots and empowers people. Some argue that a nation as moral and just as ours should not taint itself by dealing with nations less moral, less just. But this counsel offers up self-righteousness draped in a false morality. You do not reform a world by ignoring it. (Applause.)

East Asia is a case in point. Today, this dynamic region plays an important role in the world economy. As it has grown more prosperous, it has also grown more free. Driven forward by the engine of economic growth and trade, especially with the U.S., South Korea and Taiwan have shed their once authoritarian rule in favor of democracy and freer trade.

This same approach guides our policy towards the People's Republic of China, home to fully one-fifth of the world's people. China easily can affect the stability of the Asian-Pacific region -- and therefore, affect the entire world's peace and prosperity. The Chinese play a central role in working to resolve the conflict in Cambodia and relax tensions on the Korean Peninsula. China has a voice now in the multinational organizations. And its votes in the United Nations Security Council against Iraq's brutal aggression helped us forge the broad coalition that brought us victory in the Gulf. (Applause.)

And so when we find opportunities to cooperate with China, we will explore them. When problems arise with China's behavior, we will take appropriate action.

After the tragedy of Tiananmen, the United States was the first nation to condemn the use of violence against the peacefully demonstrating people of Beijing. We were the first to guarantee the rights of Chinese students studying on campuses across the country -- including here at Yale. (Applause.)

The United States was the first nation to impose sanctions -- and we are now the last, alone among the Western democracies, to keep those original sanctions in place. At every high-level meeting with the Chinese government, U.S. officials reiterate our position on human rights violations.

Unfair trade is also high on our agenda. Just last

month, we cited China under the trade rules of a special 301 for pirating U.S. copyrights and patents. And for the sake of national security, we will ban technologies and equipment to any Chinese company found to violate rules outlawing transfer of missile technologies.

We will continue to advance our interests and ideals: for free and fair trade -- for broader democratization -- for respect for human rights throughout China.

Let me be clear: As a member of the United Nations, China is bound by the U.N. Declaration of Human Rights. We will hold China to the obligations that it has freely accepted.

And, finally, we continue urging China to exercise restraint in its weapons exports. Our recent experience with Iraq proves how dangerous the deadly trade can be. And very soon, I will announce significant new steps that we can take to control arms exports to the entire Middle East. (Applause.) Every nation must play a part in this effort. That's why we urge the Chinese government to abide by the letter and spirit of international agreements on missile technology controls -- and to do what 141 other nations have already done: sign the Nuclear Nonproliferation Treaty. (Applause.)

And this is one way that the United States can be a catalyst for positive change. This week, I will employ another by proposing formally that MFN trade status continue for China. This policy has generated considerable controversy. Some critics have said revoke MFN, or endanger it with sweeping conditions -- to censure China, cut our ties and isolate it. We are told this is a principled policy, a moral thing to do.

This advice is not new. It's not wise. It is not in the best interests of our country, the United States. And in the end, in spite of noble and best intentions, it is not moral.

First, MFN is special.\* It is not a favor. It is the ordinary basis of trade worldwide. Second, MFN is a means to bring the influence of the outside world to bear on China. Critics who attack MFN today act as if the point is to punish China -- as if hurting China's economy will somehow help the cause of privatization and human rights.

The real point is to pursue a policy that has the best chance of changing Chinese behavior. If we withdrew MFN or imposed conditions that would make trade impossible, we would punish South China; in particular, Guangdong Province -- the very region where free market reform and the challenge to central authority are the strongest. Right now, there's an estimated two million Chinese who are working, and proving that privatization can work -- all in South China. Withdraw MFN and their jobs would be in jeopardy. In addition, endangering MFN would deal a body blow to Hong Kong -- the bastion of freedom and free trade in the Far East.

But the most compelling reason to renew MFN and remain engaged in China is not economic, it's not strategic, but moral. It is right to export the ideals of freedom and democracy to China. It is right to encourage Chinese students to come to the United States, and for talented American students to go to China. It is wrong to isolate China if we hope to influence China. (Applause.)

For two decades after the communists seized power in 1949, the Western world followed a policy of isolation toward China. This period proved to be among the most brutal episodes in Chinese history -- a nightmare of anguish and death and suffering that will scar the soul of China for decades to come.

\* not special.

So it comes down to the strength of our belief in the power of the democratic idea. If we pursue a policy that cultivates contacts with the Chinese people, promotes commerce to our benefit, we can help create a climate for democratic change.

No nation on Earth has discovered a way to import the world's goods and services -- while stopping foreign ideas at the border. Just as the democratic idea has transformed nations on every continent -- so, too, change will inevitably come to China.

This nation's foreign policy has always been more than simply an expression of American interests -- it's an extension of American ideals. This moral dimension of American policy requires us to remain active, engaged in the world. Many times, that means trying to chart a moral course through a world of lesser evils. That's the real world -- not black and white. Very few moral absolutes. Enormous potential for error and embarrassment. But all are part of the risks that we willingly take to advance the American ideal.

Many times in the past 40 years, people have encouraged us to adopt a policy of righteous isolationism -- but we remained engaged. We cannot advance principles if we curl up into a defensive ball. We cannot transform a world if we hide from its unpleasant realities. We can advance our cherished ideals only by extending our hand, showing our best sides, sticking patiently to our values -- even if we risk rejection.

Look at the way American encouragement and the American example -- the power of the American example -- is paying off in Taiwan and Korea. We will have no leverage. We will not be able to advance our cause or resist repression if we pull back and declare that China is simply too impure a place for us. We want to promote positive change in the world through the force of our example -- not simply profess our purity. We want to advance the cause of freedom -- not just snub nations that aren't yet wholly free.

Let me close today with some modest pieces of advice. First, understand that you often will confront moral ambiguity. There will come times when you will have difficulty distinguishing between good guys and bad guys. When these situations arise, identify your principles and stick by them. Stick by them even when people jeer, when people urge you to find a quick and easy out. (Applause.) If you remain patient and true to yourself, you can't go wrong.

Second, remember that the corner of the world that matters most is one right here at home, the one you share with friends and family.

And finally, your destiny and the currents of history will most likely intersect more than once. You will have ample opportunity to make your mark. And take care to make it count.

To all the graduates of the Class of '91 who now join me as proud alumni of this great University, congratulations, good luck to you, and may God bless the United States of America. (Applause.)

END

12:15 P.M. EDT

## RENEWAL OF CHINA'S MFN STATUS

--Shared Goals on China. Both the Administration and Congress want to see greater respect for human rights, a stronger Chinese commitment to nonproliferation and fair trade, and a continuation of positive social, political and economic change. At question is how to achieve these goals. As President Bush said at Yale, "The real point is to pursue a policy that has the best chance of changing Chinese behavior."

--China Benefits from Contact--Not Isolation. The most brutal period of communist rule occurred at a time when China was isolated from the outside world and committed to a policy of economic self-sufficiency. MFN helped to open China to outside progressive change. We will not help the Chinese people by depriving them of employment, cutting off our contacts with them, and permitting hardline, xenophobic elements to blame the U.S. for China's economic problems. These will be the effects of MFN withdrawal.

--MFN Promotes Reform. Foreign trade and investment support the economic forces that have been driving political and social change and encouraging a loosening of state control and more personal freedom. "MFN," in the words of the President, "is a means to bring the influence of the outside world to bear on China." Withdrawing MFN would have the greatest adverse impact on Chinese in the most dynamic, market-oriented coastal regions. These and other groups who depend on a healthy commercial relationship to justify business, social and academic contacts with the U.S. would be grievously hurt. Old-line conservatives in China will use MFN withdrawal as reason to close the door on these contacts.

--Other Means Available to Pursue U.S. Interests. The U.S. has set the agenda for improving the bilateral relationship and has engaged the Chinese--with tangible results--on key issues of concern, including human rights, nonproliferation, prison labor exports and trade issues. Eliminating what the Chinese consider to be a fundamental pillar of the economic relationship--MFN trade status--will seriously erode, if not destroy, our ability to engage the Chinese on these issues. The President has a broad range of authority to target specific issues, for example, proliferation and trade problems. He is using that authority forcefully to press U.S. interests. MFN withdrawal is the wrong tool for doing this. It hurts our friends and eliminates a vital avenue of influence.

--A Trade War Will Hurt U.S. Business and Consumers. Raising tariffs on Chinese products will provoke trade retaliation. This will put at risk \$5 billion (1990) in U.S. exports, including wheat (\$511 million), aerospace (\$749 million), computers and electrical machinery (\$860 million), fertilizer (\$544 million), cotton (\$259 million) and wood products (\$281 million). Since no other country is withdrawing MFN, U.S. business would be forced to cede its market share to others. Trade actions on both sides could also adversely affect over \$4 billion in U.S. investment in China. Without MFN, U.S. consumers would pay substantially higher prices for Chinese-made clothing, footwear, toys, tools and electronics. Hong Kong's economy and our \$6-billion investment there would also be hurt because of close commercial links with South China.

## SANCTIONS AND OTHER MEASURES IN PLACE ON CHINA

- o The U.S. currently has the toughest position on China sanctions. While the EC, Japan and Australia have gradually relaxed their sanctions, the U.S. has reaffirmed its existing sanctions and taken additional measures.

### Post-Tiananmen Sanctions

- o All the measures authorized by the President following the Tiananmen Square crackdown remain in effect, with only minor modifications to take into account U.S. interests:
  - Arms and Military Cooperation. Weapons deliveries remain suspended as does military cooperation.
  - Embargo on Sales to Military/Police. No licenses are being issued to dual-use civilian technology items for the Chinese police or military.
  - Munitions List. Licences for items on the munitions list remain suspended. (The only exceptions in 1990-91 have been for the Australian AUSSAT satellite project and Swedish Freja scientific satellite project).
  - Trade and Development Program (TDP) and Overseas Private Insurance Corp. (OPIC). No new activities since June 1989.
  - Export Control Liberalization. The U.S. remains opposed to considering proposals for easing COCOM controls on China.
  - World Bank Lending. The U.S. remains opposed to all World Bank lending except for basic human needs.
  - High-Level Exchanges. Regular, high-level exchanges, particularly those of a formal, ceremonial nature, remain suspended. Exceptions have been granted only to pursue issues of vital concern (e.g., human rights, nonproliferation issues, trade problems and regional issues, such as the Persian Gulf and Cambodia).

### Additional Measures

- o Over the past year the following additional measures have been taken to pursue specific U.S. interests:
- o Proliferation. The President rejected licenses for a Chinese satellite project and stated that the U.S. would impose additional sanctions on any Chinese company found to violate international guidelines on missile sales. Other measures are now under consideration.
- o Trade. The President authorized the designation of China for trade action under Special 301 for violation of U.S. intellectual property rights. Over \$85 million in Chinese textile overshipments were blocked because of violations of the bilateral textile agreement. USTR has stepped up its consultations with China on the trade imbalance, with talks scheduled for mid-June.

## WHY CONTINUING MFN STATUS FOR CHINA SERVES U.S. INTERESTS

- o The Administration and Congress share the same goals in China. Both want to see greater respect for human rights, a stronger Chinese commitment to nonproliferation and fair trade, and a continuation of positive social, political and economic change. At question is how best to achieve these goals. As President Bush said in his commencement address at Yale University, "The real point is to pursue a policy that has the best chance of changing Chinese behavior."
- o Many in Congress have urged withdrawing or conditioning MFN as a way of forcing China's leaders to address our concerns. We believe this would be counterproductive and would make achievement of these goals even more difficult. MFN withdrawal is the wrong instrument. It is the equivalent of an indiscriminating blockbuster weapon that hurts friend and foe alike. Maintaining MFN enables us to take a more discriminating approach. It helps us stay engaged, keep China in the international system and use the commercial relationship to promote reform. In the President's words, "MFN is a means to bring the influence of the outside world to bear on China." At the same time, we are still free to take, as we have already, focussed measures to address specific problems.
- o MFN should continue because it serves U.S. interests. By threatening to withdraw or condition MFN, we allow this vital link to be held hostage to the reactions of a small group of hardline leaders in Beijing.
- o The most brutal period of communist rule occurred at a time when China was isolated from the outside world and committed to a policy of economic self-sufficiency. MFN helped to open China to outside progressive change. We will not help the Chinese people by depriving them of employment, cutting off our contacts with them, and permitting hardline, xenophobic elements to blame the U.S. for China's economic problems. These will be the effects of MFN withdrawal.
- o Foreign trade and investment have been key factors over the past decade in launching reforms that have loosened state control and expanded personal freedom. By maintaining MFN, we ensure an active commercial presence in China which provides a channel for introducing American values and ideals--on free enterprise, democracy, freedom of expression and human rights. The Chinese Government can control the flow of goods across its borders but not the ideas which accompany them.
- o Withdrawing MFN would hurt reformist elements that count on us for support. Those most seriously hurt would be in the large, dynamic coastal provinces where market-oriented reforms have gone the farthest. Millions of Chinese who depend on a healthy commercial relationship to justify not only business but social and academic contacts with the U.S. would be harmed. Maintaining our extensive web of contacts with the Chinese people and Chinese institutions would be impossible in an atmosphere of trade retaliation and mutual hostility.

- o We have succeeded in setting an agenda in our relations with China that focuses on human rights, arms control and trade issues--issues which the Congress is also deeply concerned about. Withdrawing MFN would undermine the foundation on which this process of engagement was built and remove an important incentive for China to respond to our concerns. Our policy of engagement is producing tangible results.

On human rights, our continued strategy of sanctions and engagement has led to the release of about 1,000 political prisoners, freedom for prominent dissident Fang Lizhi and his family, public commitments to prevent the export of prison labor, and positive assurances on family reunification cases. The Chinese have agreed to have a high-level human rights dialogue with the U.S. This new dialogue would likely be one of the first casualties of MFN withdrawal. Emigration and student travel to the U.S., which has continued since Tiananmen, would also suffer.

On proliferation, we have China moving in the right direction. We have made clear that proliferation concerns will affect our willingness to cooperate with China, for example, on high-technology exports such as satellites and high-speed computers. China has acknowledged, in principle, the need to act responsibly on military sales, including the transfer of missile, CBW and nuclear technology. China agreed to attend the Nuclear Nonproliferation Treaty (NPT) conference in 1990. President Yang Shangkun recently stated unequivocally that China has not sold any intermediate range missiles to the Middle East since the CSS-2 transfer to Saudi Arabia three years ago. On the Sino-Algerian nuclear facility, China has publicly expressed a willingness to follow international practice on IAEA safeguards and gave assurances that the facility is strictly for peaceful purposes. Senior Chinese officials have agreed to an in-depth discussion of nonproliferation issues with Under Secretary Bartholomew in mid June.

To underscore our proliferation concerns, we are informing the Chinese that we will be sanctioning a Chinese enterprise for violation of international missile transfer guidelines and will not license satellite and high-speed computer exports to China until we reach an understanding on appropriate guidelines for the export of missile technology and related equipment.

On global/regional issues, China's cooperation has proven helpful--even essential--for achieving U.S. objectives. A permanent UN Security Council member, China played a crucial role in facilitating passage of UN resolutions on the Persian Gulf and maintaining international solidarity. The U.S. and China are working together to find a comprehensive political solution to the conflict in Cambodia. China has been exerting positive influence on Pyongyang to reduce tensions on the Korean peninsula.

Other Asian countries also look to China as a force for stability in the region and believe a constructive U.S.-China relationship is important for that goal.

On trade, China has acknowledged that it needs to import more from the U.S., responding to concerns about the large trade imbalance and problems with market access. A Chinese buying mission is now in the U.S. and will reportedly purchase over \$1 billion in grain, chemicals, fertilizer, and precision machinery. China has also acknowledged that it must do more to protect U.S. intellectual property rights. U.S. trade agencies are engaged in a high-level dialogue on both market access and IPR problems, which will continue in June. The Administration is prepared to take action under U.S. trade law to pursue U.S. interests, as it did recently in designating China under Special 301 for an IPR investigation and possible trade measures.

- o Continuing MFN protects the interests of U.S. business and consumers. MFN is not a special trade status. It is the basis for trade that we have with most countries. Raising tariffs on Chinese products will provoke trade retaliation. This will put at risk \$5 billion (1990) in U.S. exports including wheat (\$511 million), aerospace (\$749 million), computers and electrical machinery (\$860 million), fertilizer (\$544 million), cotton (\$259 million) and wood products (\$281 million). Since no other country plans to withdraw MFN, trade retaliation would put U.S. business at a competitive disadvantage. Trade actions on both sides could also adversely affect over \$4 billion in U.S. investment in China. Without MFN, U.S. consumers would pay substantially higher prices for Chinese-made clothing, footwear, toys, tools and electronics.
- o MFN is also important for the stability and prosperity of Hong Kong's free enterprise economy. Withdrawing China's MFN status would be a body blow to confidence in the territory since Hong Kong's economy is increasingly tied to the growth of South China's export industry. Approximately 2,500 Hong Kong enterprises have shifted their export production to factories in neighboring Guangdong Province. An additional 10,000-15,000 South China enterprises do assembly work for Hong Kong companies. U.S. business, which has invested over \$6 billion in Hong Kong, would also be hurt. A 1990 survey revealed that 70 percent of approximately 900 U.S. companies in Hong Kong would face business difficulties and 50 percent would have to reduce staff if China's MFN status was discontinued.
- o The bottom line is that withdrawing MFN would seriously damage U.S. foreign policy interests, limit our contacts with China, weaken the economic forces for reform and hurt U.S. business and consumers. Our influence over Chinese behavior would be weakened, not strengthened. We should continue MFN because it is in our interest. It enables the U.S. to stay engaged with China and pursue the issues which are of vital concern to the American people. As the President said, "It is wrong to isolate China if we hope to influence China."

## PROPOSALS TO CONDITION RENEWAL OF CHINA'S MFN STATUS

- o Conditional renewal of China's MFN status has been presented as a way to force China to address our human rights and other concerns. It is in fact a high-risk approach that holds the single most powerful instrument we have for promoting reform in China as hostage to reactions of a small group of hardline leaders in Beijing.
- o Continuing MFN is in the U.S. interest. By facilitating trade, it acts as a key catalyst to reform, keeps China open to the outside world, sustains a wide range of contacts with the Chinese people and provides incentive for China to stay engaged on issues of vital interest to us. Conditionality overlooks the importance of MFN for these long-term objectives and, in effect, accepts them as expendable in the quest for more limited, short-term goals.
- o MFN conditionality risks making the Chinese less apt--not more--to take positive steps on issues of concern to us. Confronted with a public ultimatum to change policies, nationalist and hardline elements of the Chinese leadership are likely to argue--effectively--that national pride and the need to preserve sovereign authority do not permit concessions under such duress. Positive actions which the Chinese might have been willing to take in the context of negotiation could become politically impossible. The bilateral dialogue on human rights that we succeeded in establishing could be the first casualty.
  - Attempts to craft even "soft" (i.e., realistic) conditionality would be counterproductive. With the situation on key issues continuing to evolve and so many Congressional perspectives on what constitutes acceptable conditions, the end product is likely to include provisions that provoke the Chinese to disengage or do not accurately address the current state of affairs.
  - Many of the objectives contained in earlier conditionality legislation (e.g., the lifting of martial law, freeing of prominent dissident Fang Lizhi and release of Tiananmen detainees) were eventually achieved through our strategy of engagement. This strategy is working and should continue.
- o Conditional MFN renewal would severely handicap U.S. business in China. No other foreign companies in China face the uncertainty of MFN withdrawal by their government. U.S. companies can't make long-term business decisions knowing that the renewal of MFN trade status--a fundamental operating condition--will depend on the subjective judgments of Congress regarding China's political behavior.

- Renewal of MFN under the Jackson-Vanik already entails risks which many U.S. companies find burdensome. Additional conditions would greatly increase those risks and discourage U.S. companies from trading and investing in China, leaving the China market to our competitors and costing American jobs in the process.
  
- MFN is the basis for trade that we have with most countries of the world, even those with which we have serious human rights and other concerns. If we start down the road of attaching new political conditions to trade, U.S. global competitiveness will suffer.
  
- o Legislative ultimatums on the Chinese Government are likely to create a hostile environment that will work against the expansion of contacts between American and Chinese people and institutions. Despite our bilateral differences, China has continued to permit a wide range of contacts, including emigration, student travel and academic exchanges. MFN conditionality will give ammunition to old-line conservatives in China who want to restrict the liberalizing impact of contact with the U.S.
  
- o Other more targeted means, aside from MFN withdrawal, are available to pursue specific U.S. interests, and the Administration is prepared to use them. To underscore our concerns about possible Chinese proliferation, we recently sanctioned a Chinese enterprise for transferring missile equipment in violation of international guidelines. We are also informing the Chinese Government that we will not be licensing high-speed computers to China or waiving legislative restrictions on satellite exports until we reach an understanding on the export of missile technology and equipment. In the trade area, we recently designated China under the Special 301 provisions for an investigation--and possible trade action--because of inadequate protection of U.S. intellectual property rights. We are also pressing China at a high-level on market access and have broad trade authority to use as leverage, if necessary.
  
- Our post-Tiananmen sanctions on military sales, munitions list licenses, OPIC and TDP programs remain in place. The U.S. still leads the Western democracies in the scope and impact of sanctions on China.

## Fact Sheet

### Chinese Attitudes Toward MFN Renewal

- Our posts in China have been actively soliciting views on MFN from a very broad range of Chinese citizens. We have paid particular attention to the opinions of those who are known to favor further reforms and democratization, and to those who would be most at risk if repression deepened. We have also discussed the MFN issue with hundreds of Chinese students and scholars in the U.S.
  
- Our Embassy and Consulates have reported nearly unanimous support for renewal of MFN among all sectors of the Chinese population. While Chinese government officials have tended to reiterate their government's official arguments, those who want more reform and democracy in China have actually used significantly stronger language in urging renewal.
  - o The Washington Post correspondent in Beijing quoted a Chinese intellectual offering a toast to MFN renewal, saying "if it was taken away, we would not be able to meet and talk."
  
  - o In the same report, a student at Beijing University (which led the 1989 demonstrations) argued against conditionality, saying that students "don't agree that economic blackmail should be used to bring about democracy in China."
  
  - o Two of the most prominent dissidents now active in China acknowledged to us recently that withdrawal of MFN would seriously jeopardize their ability to continue speaking out against repression.
  
- Among Chinese students and scholars in the West, the range of opinion is much more diverse, but still overwhelmingly in favor of renewal in some form.
  - o In a recent random poll conducted by Chinese scholars among their colleagues throughout the U.S., only 12 out of 402 supported withdrawal of MFN. Most of the remainder favored unconditional renewal or modest conditions.
  
  - o Of the letters we have received on MFN from many Chinese in the West, one to the President from England best reflects the general trend of thought: "As a Chinese student from the poorest province in China, I understand what a disastrous effect could a revocation of China's MFN status bring to my poor parents, who, as many ordinary Chinese, desperately need, and in fact have already benefitted from, the influence of the West. Do not shut up the door that was opened only after thousands and millions of people sacrificed their lives. I support your policy on China's MFN."

- MFN Decision Advances U.S. Interests. Continuing China's MFN status preserves a PRC stake in moving toward the international consensus on nuclear, missile, and CW nonproliferation, an objective the Administration and Congress share.
- Engagement Pays Off in the Long Run. Beginning in the mid-eighties, both China's policies and the global nonproliferation context began to change. China, which once held an antagonistic view of multilateral controls on nuclear exports, joined the IAEA in 1984 and sent observers to the NPT Review Conference in 1990. China's 1987 sale of CSS-2 missiles to Saudi Arabia pre-dated the INF Agreement, the establishment of the Missile Technology Control Regime. In 1989, China made a public commitment to refrain from medium-range missile deliveries to the Middle East--and has kept to that commitment.
- Nuclear Proliferation. Our expression of concern about Sino-Algerian nuclear cooperation has led to commitments by both countries to place the cooperation under IAEA safeguards and their pledges that the cooperation is strictly for peaceful purposes. We await the next step, i.e. Algeria's discussions with the IAEA. We view favorably China's public position on nuclear exports, but would like to see China take the further steps of joining the NPT and adopting Nuclear Suppliers Guidelines. Serious concerns remain; the Administration will not ignore current problems in this area.
- Missiles. We have engaged in intensive dialogue with Beijing on its missile export policy. It is clear that in some cases China has declined proposed missile exports because of foreign policy considerations. More broadly, the Chinese Ambassador said recently that China supports effective international control on military sales, including missiles. That statement constitutes a modest step toward our objective of a PRC commitment to observe MTCR guidelines. China's missile export policy remains a high priority in our bilateral dialogue; problems that originated before the establishment of the MTCR have not disappeared, but we have seen some progress over the past half-decade. China's proliferation policy is gradually changing in a favorable direction. We aim to accelerate that trend.
- Chemical Weapons. China is on record opposing the manufacture and transfer of chemical weapons, and is participating in multilateral efforts to ban chemical weapons. We have made some progress on the subject of controls over exports of CW precursors, and we hope to advance discussions in this vital area.
- Next Steps. We are encouraged by progress in some areas and still see a need for progress in others. It is because of our continuing concerns that we want to maintain a constructive nonproliferation dialogue with Beijing. Under Secretary Kimmitt raised these issues in Beijing in May, and Under Secretary Bartholomew will follow up during his upcoming visit to China.

## ECONOMIC EFFECTS OF MFN WITHDRAWAL

-- U.S. Exporters and Investors Would Be Hurt. If MFN is withdrawn, Chinese trade retaliation is certain, including reciprocal loss of MFN status for U.S. exports to China and possibly other administrative measures to market access.

- o Since no other countries would be withdrawing China's MFN status, U.S. companies would be put at a competitive disadvantage. Major exports at stake and their sales in 1990 include:

- Wheat \$511 million
- Aircraft/Aerospace Equipment \$749 million
- Fertilizer \$544 million
- Cotton \$259 million
- Timber/paper \$281 million
- Computers & Electric Products \$860 million
- Chemicals \$273 million

- o U.S. joint ventures in China, which now total almost 1,000 and have invested capital of over \$4 billion, would pay higher duties on U.S.-made components and their exports to the U.S. would be subject to higher non-MFN U.S. duties

-- Consumers Would Suffer. U.S. consumers and retailers would have to pay the sharply higher non-MFN duty rates on Chinese-made imports, including footwear, clothing and toys and electrical products. Examples include:

	<u>MFN Duty (%)</u>	<u>non-MFN Duty (%)</u>
Footwear	6.0	35.0
Sweaters	6.0	60.0
Stuffed Toys	6.8	70.0
Fans	4.7	35.0

-- Other Tools At Our Disposal to Resolve Key Trade Concerns. We have ongoing discussions with the Chinese on key economic and trade issues, including market access, intellectual property protection (where China was recently identified under Special 301), textile transshipments and dumping. We have made progress in some areas and utilized existing legislation to take additional action where necessary. China has expressed a willingness to stay engaged to resolve our concerns. Withdrawing MFN would seriously weaken our negotiating position on these issues.

IMPACT OF MFN WITHDRAWAL ON HONG KONG AND U.S. BUSINESS THERE

- Impact on Hong Kong's Economy. The health of Hong Kong's economy is increasingly tied to the growth of south China's export industry. Approximately 2,500 Hong Kong enterprises have shifted their export-bound production facilities to the Pearl River delta in Guangdong Province. An additional 10,000-15,000 south China enterprises do assembly work for Hong Kong companies.
- China is Hong Kong's largest trading partner, accounting for 39 percent of total 1990 trade. Re-exports, which grew by 20 percent in 1990, underpin Hong Kong's trade performance.
  - o According to the Hong Kong Government, loss of MFN status could cut Chinese re-exports via Hong Kong by up to 44 percent or \$4.6 billion.
  - o First-year effects could include \$1.2 billion in lost income and 43,000 jobs or 1.5 percent of Hong Kong's labor force.
- Body Blow to Local Confidence. MFN denial would further erode local confidence, already badly shaken by Tiananmen, in the run-up to resumption of Chinese sovereignty in 1997.
  - o The drop in confidence would accelerate outward migration from Hong Kong, which now exceeds 50,000 a year and includes many professionals and managers.
- U.S. Business Interests Would Be Hurt. The U.S. has the largest number of regional headquarters in Hong Kong, with over 40 percent of the total or 252 offices. Almost half are engaged in trading activities with China, a principal market and source of supply.
  - o U.S. investment of over \$6 billion accounts for almost one-quarter of foreign direct investment in Hong Kong. A 1990 American Chamber of Commerce survey indicated that 70 percent of the approximately 900 U.S. member firms would be adversely affected and 50 percent would consider reducing staff.

## CHINA'S EMIGRATION AND FOREIGN TRAVEL POLICIES

### Emigration

- China's relatively free emigration policies have continued since the renewal of MFN status in 1990. In FY 1990, 16,751 U.S. immigrant visas were issued in the PRC. The U.S. numerical limitation for immigrants from China was fully met.
- The principal restraint on increased emigration continues to be the capacity and willingness of other nations to absorb Chinese immigrants, not Chinese policy.

### Foreign Travel Policies

- China continues to adhere to a relatively open foreign travel policy. According to Chinese officials, 255,000 persons were issued passports for private travel of all kinds in 1990, a more than three-fold increase from 1986. U.S. diplomatic posts in China issued 60,687 nonimmigrant visas in FY 1990. Last year, 33,800 nonimmigrant visas were issued worldwide to Chinese students and tourists, a 19 percent increase over FY 1989 and an 84 percent increase over FY 1988.
- Chinese officials report that several thousand students have returned from overseas for visits after June 1989 and have been allowed to depart again under expedited procedures. We cannot verify these figures, but we are not aware of any cases in which Chinese living in the U.S. who returned to China for visits after June 1989 were prevented from leaving again.
- Foreign travel officially sponsored by the Chinese Government continued to decline in FY 1990, reflecting economic austerity measures and concern about extended delays in the return of officially sponsored scholars to China.
- In February 1990, China issued a new directive requiring recent college graduates and fourth-year undergraduates to work for five years before applying for overseas study, with some exceptions. This directive has undoubtedly forced some students to defer their plans for overseas study. However, its full impact is unclear since student visa applications and issuances continue to increase.
- We are aware of a small number of individuals who have had difficulty in obtaining permission to travel abroad, apparently because of the political activities of their relatives in the U.S. We have discussed these cases with Chinese authorities, who have indicated a willingness to address the issue.

## U.S.-CHINA TRADE AND INVESTMENT

### U.S.-China Trade (\$ billions)

	<u>1979*</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>%Chg 89-90</u>
<u>Total Trade</u>	2.3	13.5	17.8	20.0	12
<u>US Exports</u>	1.7	5.0	5.8	4.8	-17
<u>US Imports</u>	0.6	8.5	12.0	15.2	27
<u>Trade Balance</u>	1.1	-3.5	-6.2	-10.4	-68

\* Last year before U.S. granted MFN status to China.

### U.S. Exports to China (\$ millions)

	<u>1990</u>
Cereals	512
Computers & Electric Products	860
Aircraft & Parts	749
Fertilizer	544
Chemicals	273
Prof. & Sci. Instruments	227
Iron & Steel	44
Cotton Yarn & Fabric	281
Electric Machinery	264
Plastics & Resins	166

### Chinese Exports to the U.S. (\$ millions)

	<u>1990</u>
Apparel	3,197
Toys, Games, Sporting Goods	2,139
Electric Machinery	1,926
Footwear	1,477
Travel Goods	874
Petroleum	661
Fish	396
Plastics	387
Iron & Steel	247
Furniture, Lamps, Bedding	276

Selected Chinese Import Tariffs

<u>Commodity</u>	<u>MFN Tariff(%)</u>	<u>Non-MFN Tariff(%)</u>
Wheat	0	0
Aircraft & Parts	6	11
Fertilizers	30	40
Cotton	30	40
Rough Wood	3	8
Polycarboxylic Acids	15	20
Specialized Machinery	20	30

Selected U.S. Import Tariffs

<u>Commodity</u>	<u>MFN Tariff(%)</u>	<u>Non-MFN Tariff(%)</u>
Manufactured Articles	0-32	0-110
Apparel	0-34.6	25-90
Telecommunications	2.4-8.5	35
Footwear	0-48	10-84
Travel goods, handbags	4.6-20	35-90
Petroleum, oils	\$.105/bbl	\$.21/bbl

Sources of Foreign Investment in China, 1979-89  
(Contracted value, \$ billions)

	<u>1979-86</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Cum. Total</u>	<u>% Share</u>
National Total	19.99	4.32	6.19	6.29	36.80	100.0
Hong Kong, Macau	12.40	2.36	4.16	3.73	22.66	61.6
United States	2.72	0.36	0.38	0.65	4.11	11.2
Japan	1.91	0.39	0.37	0.52	3.18	8.7
Others	2.96	1.21	1.27	1.39	6.84	18.6

SECMEC 1692

## THE WHITE HOUSE

Office of the Press Secretary  
(Kennebunkport, Maine)

For Immediate Release

May 27, 1991

REMARKS BY THE PRESIDENT  
IN COMMENCEMENT ADDRESS TO YALE UNIVERSITYYale University Quadrangle  
New Haven, Connecticut

11:55 A.M.

THE PRESIDENT: Thank you very, very much. President Schmidt and members of the faculty, and the Yale community, fellows of the Yale Corporation, and especially with congratulations to my fellow honorands -- it is an honor to be here today. Mayor Daniels, it's nice to be back in the city. And most importantly, to the graduating students -- congratulate each and every one of you. (Applause.) May I single out Yale's band. They've cleaned up for today, and they've never been better under Mr. Tom Duffy. Thank you sir. (Applause.) And thank you for the warm welcome. Si res prehensio en cano est non oves sic vacio. That means, if you're holding up the sign, you can't throw eggs. (Laughter and applause.)

I remember my own commencement. Like so many of my classmates, I'd come to Yale fresh from war -- ready to make up for "lost time." I remember our impatience and our optimism. And we sensed upcoming adventure. I imagine it's the same today for all of you. It's almost as if life is about to begin -- that is, if the commencement speech ever ends. (Laughter.)

Twenty-nine years ago, President Kennedy stood right here, and my dad was honored with him. And he said, "I have the best of all worlds -- a Yale degree and a Harvard education." (Laughter. He had it wrong. I've got the best of all worlds -- a Yale education and a Yale degree. (Applause.)

My day was no different. There's an excitement in the air, and Barbara and I spent a good part of our senior year thinking about, literally, becoming farmers. We talked about life on the land and rising early and working hard and raising a crop and a family. And we looked into the finances of running a farm. In the end, we decided against the whole idea. We realized that when it came to pigs and chickens and cattle or corn, we didn't know the first thing about farming.

So, of course, there was only one alternative: I went west and became an oilman. (Laughter.) The days after -- the day -- the very day after the ceremony like this one, I traded the familiar surroundings of this beautiful old campus for the dust and grit and searing heat of the Lone Star State.

Odessa, Texas, became my world. And yet far beyond 37 Hillhouse Avenue where Barbara and I lived, or the Flatlands of West Texas, change rocked the whole world in ways that would affect us all for more than 40 years. On June 20th, 1948 -- my graduation day -- the United Nations sent out its first peacekeeping force -- 49 men from the United States and six other nations -- to bring the promise of peace to the Middle East. And on that day, the Soviet Union tried to clamp down on the free sectors of Berlin -- the Berlin Blockade had begun. And on that day, Congress, after an all-night session, passed a bill to help the nations of war-torn Europe. That package would become known, as we all know, as the Marshall Plan.

Today's world -- your world -- is every bit as

astounding. Back in my day, opportunity knocked. And yours -- y  
pager beeps.

We have seen in two short years the end of a long era  
Cold War and conflict. The Iron Curtain collapsed -- it's gone, t  
wall is down. (Applause.) And with it the myth of an ideology  
called communism. On the barren ground that once separated East a  
West, the democratic idea sprouted anew.

As a nation, we can take great pride in this triumph.  
vindicates more than 40 years of American vigilance -- a lesson  
learned on the battlefields of Europe and the seas of the South  
Pacific -- that this nation could no longer pursue a policy of  
"splendid isolation."

The democratic renaissance in Central and Eastern Euro  
-- the blossoming of democracy here in the Americas -- the emergin  
consensus on the African Continent that democracy is the road to  
development -- none of this would have taken place if America had  
turned inward, away from the challenges of a new world.

So today, as we seek to promote freedom and democracy  
human rights -- as we seek to strengthen stability within the  
international community -- an America confident enough to engage t  
world remains our best hope for peace, security and shared  
prosperity. (Applause.)

Look in every corner of the globe and you will find th  
the American example has consequences. When we reach out, we offe  
more than cars or grain or MTV. We exemplify an ideal -- an ideal  
that conquers circumstance and suspicion, that conquers despots an  
empowers people. Some argue that a nation as moral and just as ou  
should not taint itself by dealing with nations less moral, less  
just. But this counsel offers up self-righteousness draped in a  
false morality. You do not reform a world by ignoring it.  
(Applause.)

East Asia is a case in point. Today, this dynamic reg  
plays an important role in the world economy. As it has grown mor  
prosperous, it has also grown more free. Driven forward by the  
engine of economic growth and trade, especially with the U.S., Sou  
Korea and Taiwan have shed their once authoritarian rule in favor  
democracy and freer trade.

This same approach guides our policy towards the Peopl  
Republic of China, home to fully one-fifth of the world's people.  
China easily can affect the stability of the Asian-Pacific region  
and therefore, affect the entire world's peace and prosperity. Th  
Chinese play a central role in working to resolve the conflict in  
Cambodia and relax tensions on the Korean Peninsula. China has a  
voice now in the multinational organizations. And its votes in th  
United Nations Security Council against Iraq's brutal aggression  
helped us forge the broad coalition that brought us victory in the  
Gulf. (Applause.)

And so when we find opportunities to cooperate with  
China, we will explore them. When problems arise with China's  
behavior, we will take appropriate action.

After the tragedy of Tiananmen, the United States was  
first nation to condemn the use of violence against the peacefully  
demonstrating people of Beijing. We were the first to guarantee t  
rights of Chinese students studying on campuses across the country  
including here at Yale. (Applause.)

The United States was the first nation to impose  
sanctions -- and we are now the last, alone among the Western  
democracies, to keep those original sanctions in place. At every  
high-level meeting with the Chinese government, U.S. officials  
reiterate our position on human rights violations.

Unfair trade is also high on our agenda. Just last

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month, we cited China under the trade rules of a special 301 for pirating U.S. copyrights and patents. And for the sake of national security, we will ban technologies and equipment to any Chinese company found to violate rules outlawing transfer of missile technologies.

We will continue to advance our interests and ideals: for free and fair trade -- for broader democratization -- for respect for human rights throughout China.

Let me be clear: As a member of the United Nations, China is bound by the U.N. Declaration of Human Rights. We will hold China to the obligations that it has freely accepted.

And, finally, we continue urging China to exercise restraint in its weapons exports. Our recent experience with Iraq proves how dangerous the deadly trade can be. And very soon, I will announce significant new steps that we can take to control arms exports to the entire Middle East. (Applause.) Every nation must play a part in this effort. That's why we urge the Chinese government to abide by the letter and spirit of international agreements on missile technology controls -- and to do what 141 other nations have already done: sign the Nuclear Nonproliferation Treaty. (Applause.)

And this is one way that the United States can be a catalyst for positive change. This week, I will employ another by proposing formally that MFN trade status continue for China. This policy has generated considerable controversy. Some critics have said revoke MFN, or endanger it with sweeping conditions -- to censure China, cut our ties and isolate it. We are told this is a principled policy, a moral thing to do.

This advice is not new. It's not wise. It is not in the best interests of our country, the United States. And in the end, in spite of noble and best intentions, it is not moral.

First, MFN is special.\* It is not a favor. It is the ordinary basis of trade worldwide. Second, MFN is a means to bring the influence of the outside world to bear on China. Critics who attack MFN today act as if the point is to punish China -- as if hurting China's economy will somehow help the cause of privatization and human rights.

The real point is to pursue a policy that has the best chance of changing Chinese behavior. If we withdrew MFN or imposed conditions that would make trade impossible, we would punish South China: in particular, Guangdong Province -- the very region where free market reform and the challenge to central authority are the strongest. Right now, there's an estimated two million Chinese who are working, and proving that privatization can work -- all in South China. Withdraw MFN and their jobs would be in jeopardy. In addition, endangering MFN would deal a body blow to Hong Kong -- the bastion of freedom and free trade in the Far East.

But the most compelling reason to renew MFN and remain engaged in China is not economic, it's not strategic, but moral. It is right to export the ideals of freedom and democracy to China. It is right to encourage Chinese students to come to the United States, and for talented American students to go to China. It is wrong to isolate China if we hope to influence China. (Applause.)

For two decades after the communists seized power in 1949, the Western world followed a policy of isolation toward China. This period proved to be among the most brutal episodes in Chinese history -- a nightmare of anguish and death and suffering that will scar the soul of China for decades to come.

\* not special.

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So it comes down to the strength of our belief in the power of the democratic idea. If we pursue a policy that cultivates contacts with the Chinese people, promotes commerce to our benefit, we can help create a climate for democratic change.

No nation on Earth has discovered a way to import the world's goods and services -- while stopping foreign ideas at the border. Just as the democratic idea has transformed nations on every continent -- so, too, change will inevitably come to China.

This nation's foreign policy has always been more than simply an expression of American interests -- it's an extension of American ideals. This moral dimension of American policy requires us to remain active, engaged in the world. Many times, that means trying to chart a moral course through a world of lesser evils. That's the real world -- not black and white. Very few moral absolutes. Enormous potential for error and embarrassment. But all are part of the risks that we willingly take to advance the American ideal.

Many times in the past 40 years, people have encouraged us to adopt a policy of righteous isolationism -- but we remained engaged. We cannot advance principles if we curl up into a defensive ball. We cannot transform a world if we hide from its unpleasant realities. We can advance our cherished ideals only by extending our hand, showing our best sides, sticking patiently to our values -- even if we risk rejection.

Look at the way American encouragement and the American example -- the power of the American example -- is paying off in Taiwan and Korea. We will have no leverage. We will not be able to advance our cause or resist repression if we pull back and declare that China is simply too impure a place for us. We want to promote positive change in the world through the force of our example -- not simply profess our purity. We want to advance the cause of freedom -- not just snub nations that aren't yet wholly free.

Let me close today with some modest pieces of advice. First, understand that you often will confront moral ambiguity. There will come times when you will have difficulty distinguishing between good guys and bad guys. When these situations arise, identify your principles and stick by them. Stick by them even when people jeer, when people urge you to find a quick and easy out. (Applause.) If you remain patient and true to yourself, you can't be wrong.

Second, remember that the corner of the world that matters most is one right here at home, the one you share with friends and family.

And finally, your destiny and the currents of history will most likely intersect more than once. You will have ample opportunity to make your mark. And take care to make it count.

To all the graduates of the Class of '91 who now join as proud alumni of this great University, congratulations, good luck to you, and may God bless the United States of America. (Applause)

END

12:15 P.M. 80

June 7, 1991

**SUMMARY OF PROPOSAL  
BY CONGRESSMAN WILLIAM S. BROOMFIELD (R-MI)  
FOR LEGISLATION ON U.S.-CHINA RELATIONS**

- Freestanding legislation, independent from renewal of most-favored-nation (MFN) status, that could be put forward at any time during the debate over MFN or afterward;
- Framework for addressing the major issues in U.S.-China relations through legislation and further action by the Administration;
- A way to improve coordination between the Executive and Legislative branches and enhance public understanding;
- Main elements would include:
  - Statement of Congressional findings on and purposes of U.S. relations with China;
  - Establishment of a special Presidential commission, to be comprised of leading Executive branch officials, Congressmen and distinguished private citizens, that would report its recommendations after nine months;
  - Review and consolidation of current political actions against China and consideration of additional measures;
  - Further steps on trade issues, including unfair trade practices, structural issues, and export of convict-made goods.

DRAFT  
June 4, 1991

UNITED STATES RELATIONS  
WITH THE PEOPLE'S REPUBLIC OF CHINA  
ACT OF 1991

Title I -- Findings and Purposes

This title would lay out Congressional findings with respect to China and the general purposes of U.S. policy toward China. While recognizing the importance of normal relations between China and the U.S., the findings and purposes would focus on major issues of concern.

The main issues of concern include but are not limited to: Failure of the Chinese government to account for the massacre at Tiananmen Square in 1989 and its aftermath; the continuing political repression in China; proliferation of sensitive military technologies; unwillingness to cooperate fully in the resolution of regional conflicts; reluctance to enter into multilateral arrangements to resolve important political and technological issues; limitation of U.S. participation in the Chinese economy through import restrictions, investment obstacles and misappropriation of intellectual property; and aspects of the structure of the Chinese economy that unfairly subsidize exports to the U.S.

Title II -- Special Commission on U.S. Relations with China

This title would establish a Special Commission on U.S. Relations with China which would be intended to provide a means to reduce the disagreements between the Executive and Legislative branches of government on policy toward China and lay a basis for national consensus on our relations with China. The Commission would be appointed by the President, with appointees to be drawn from the upper ranks of government, the Congress, and the private sector.

With respect to Congressional appointees, the President would be requested to consult with the Leadership of Congress in order to identify two members from each house -- equally divided between Democrats and Republicans -- to be nominated. With respect to private sector appointees, the President would be directed to nominate persons of high reputation with special expertise on U.S.-China relations, regardless of political party. The President would be directed to consult with the Leadership of Congress before making such appointments.

The Commission would be empowered to hold hearings and pursue investigations, including if necessary travel to China and other locations, and be given a small budget and the ability to request assistance from federal agencies on a non-reimbursable basis. A small staff would be created under the direct supervision of the Commission, through its Chairman (who would be one of the private sector appointees).

The Commission would be requested to submit its report to the President within 9 months. If the Commission deems it desirable, the report could include recommendations for legislative as well as executive action.

### Title III -- Interim Political Actions by the United States

This title would include actions which could be taken by the United States, outside the trade area, to influence the Chinese government to address the major issues in U.S.-China relations. These could include:

- Review and consolidation of current U.S. sanctions, including restrictions on transfer of U.S. technology, official credits and U.S. support to multilateral bank lending;
- Legislative enactment of further sanctions, including the recent Presidential actions to limit Chinese access to satellite and other technology;
- Consideration of further U.S. actions in response to human rights, proliferation and other political concerns, including additional restrictions on exports of munitions items in the event China continues to transfer sensitive military technology to potential troublespots.

### Title IV -- Trade and Related Actions by the United States

This title would include new trade and related action by the United States in response to economic and political developments in China. These could include:

- Consideration of action under Section 301 of the Trade Act or similar procedures in order to respond to unfair trade practices, particularly in the area of import controls and restrictions by China which affect U.S. products and services;
- Delineation of criteria for successful renewal of the three-year trade agreement with China, required for continuation of most-favored-nation status, to resolve the issues of restrictions on U.S. exports, etc. as well as subsidies and other aspects of the Chinese economy which have also contributed to the recent trade imbalance. (This agreement must be renewed in February 1992);
- Consideration of action under Section 406 of the Trade Act, related to special relief for market disruption by imports from a communist country; and
- Exploration of further investigatory and rulemaking action by the Department of the Treasury and its component agencies to improve the enforcement of U.S. laws, such as Sec. 307 of the Tariff Act, which prohibit the importation of convict-made goods.

# SENATE RECORD VOTE ANALYSIS

101st Congress  
2d Session

Vote No. 1

January 25, 1990, 2:31 p.m.  
Page S-382 (Temp. Record)

## CHINESE STUDENTS/Veto

**SUBJECT:** The Emergency Chinese Adjustment of Status Facilitation Act of 1989 . . . H.R. 2712. Passage, upon reconsideration, the objections of the President notwithstanding.

### ACTION: VETO SUSTAINED, 62-37

**SYNOPSIS:** On July 31, 1989, the House passed H.R. 2712, the Emergency Chinese Adjustment of Status Facilitation Act, by voice vote. The Senate amended and passed the bill by voice vote on August 4, 1989. Following conference, the House passed the conference report to H.R. 2712, 403-0, on November 19, 1989, and the Senate passed the conference report by voice vote on November 20, 1989.

H.R. 2712 assists Chinese nationals in the United States by: (1) waiving the two-year home country residence requirement for nationals of the People's Republic of China in the United States on an exchange visitor (J) visa (student, teacher, research); (2) continuing the legal status of nonimmigrant Chinese nationals lawfully in the United States as of June 5, 1989, for change of status purposes; (3) permitting Chinese nationals lawfully present in the United States as of June 5, 1989, on (F), (J), or (M) visas (student, exchange visitor, vocational student) to work; and (4) requiring the Attorney General to send explanatory notices of visa expirations (instead of deportation notices) to Chinese aliens during the deferred departure period. As well, H.R. 2712, as amended, would allow Chinese nationals who fear persecution as a result of their opposition to Chinese policies of mandatory sterilization and/or abortion to be granted asylum in the United States.

On November 30, 1989, President Bush returned H.R. 2712 to the House of Representatives unsigned. In a memorandum of disapproval accompanying the bill, the President asserted the bill was unnecessary because he had already extended additional protection to Chinese nationals covered by the Attorney General's June 6, 1989, order—deferring their enforced departure. Specifically, the President issued an executive order on November 30, 1989, to: (1) waive the two year home country residence requirement until January 1, 1994; (2) assure continued lawful immigration status for Chinese individuals who were lawfully in the United States on June 5, 1989; (3) authorize employment of Chinese nationals in the United States on June 5, 1989; and (4) send notice of expiration of nonimmigrant status rather than institute deportation proceedings for individuals eligible for deferral of enforced departure.

(See other side)

YEAS (62)		NAYS (37)		NOT VOTING (1)	
Republicans (8 or 18%)	Democrats (54 or 100%)	Republicans (37 or 82%)	Democrats (0 or 0%)	Republicans (0)	Democrats (1)
Armstrong	Adams	Bond	Lott ✓		Breaux ←
Boschwitz	Baucus	Burns	Lugar		
Cohen	Bentsen	Chafee	Mack ✓		
Gorton	Biden	Coats ✓	McCain		
Helms	Bingaman	Cochran	McClure		
Kasten	Boren	D'Amato ✓	McConnell		
Pressler	Bradley	Danforth	Murkowski		
Wilson	Bryan	Dole	Nickles		
	Bumpers	Domenici	Packwood		
	Burdick	Durenberger	Roth		
	Byrd	Garn	Rudman		
	Conrad	Gramm	Simpson		
	Cranston	Grassley ✓	Specter		
	Daschle	Hatch	Stevens		
	DeConcini	Hatfield	Symms ✓		
	Dixon	Heinz ←	Thurmond		
	Dodd	Humphrey	Wallop ✓		
	Exon	Jeffords	Warner		
	Ford	Kassebaum			
	Fowler				
	Glenn				
	Gore				
	Graham				
	Harkin				
	Heflin				
	Hollings				
	Inouye				
	Johnston				
	Kennedy				
	Kerrey				
	Kerry				
	Kohl				
	Lautenberg				
	Leahy				
	Levin				
	Lieberman				
	Matsunaga				
	Metzenbaum				
	Mikulski				
	Mitchell				
	Moynihan				
	Nunn				
	Pell				
	Pryor				
	Reid				
	Riegle				
	Robb				
	Rockefeller				
	Sanford				
	Sarbanes				
	Sasser				
	Shelby				
	Simon				
	Wirth				

nonimmigrant status has expired. As well, the President instructed the Immigration and Naturalization Service to grant asylum to any person who feared persecution as a result of their opposition to mandatory government policies of forced sterilizations and/or abortions. In addition, the President argued that the bill impeded his ability to conduct foreign policy.

On January 24, 1990, the House voted, 390 to 25, to override the President's veto.

NOTE: A yea vote was a vote to override the President's veto; a nay vote was a vote to sustain the veto. A two-thirds majority of those present and voting (66 in this case) is required to override a veto.

**Those favoring the veto override contended:**

President Bush's veto of H.R. 2712 last November tarnished America's proud history of support for human rights. To remain true to that past, this Senate must pass H.R. 2712, the objections of the President notwithstanding.

June 4, 1989, was a day of shame in the history of China, when its government of old men slaughtered hundreds, if not thousands, of young students peacefully advocating democracy. This barbaric act, condemned by all civilized nations, was followed by wholesale arrests, imprisonments, and executions of Chinese youths whose only crime was to have studied in America and to have brought back with them to their homeland our democratic ideals. As part of its policy of terror and intimidation, China's government intimated that Chinese students who had to return home following the expiration of their visas would be dealt with harshly. To obviate such punishment, last year the House (by a vote of 403-0) and Senate (by voice vote) passed H.R. 2712, which exempted the 40,000 Chinese students studying in the United States from returning to China.

This statutory protection, though, was capriciously eliminated by President Bush. Claiming that he would by executive action waive the return-home obligation, and that he needed a free hand to conduct China policy, the President returned H.R. 2712 to us unsigned.

To begin with, many question the President's authority to declare such a change in immigration regulations. His order provides no statutory legal protection for the Chinese students and can be revoked by the President at his discretion. In addition, the President's order may be open to court challenge, as it appears his action is inconsistent with current immigration statutes. Only legislative changes in present law would unquestionably allow these students to remain in the United States.

As well, while the President argued that he needed to be free of Congressional interference in the conduct of his China policy, his strategy since June 4, 1989, deserves our intense scrutiny. Merely a month after the Tianamen Square murders, the President dispatched a secret mission to Peking to express the outrage of the United States at the action of the Chinese government. This was to no effect; since July, 1989, the government of China has detained or arrested more than 10,000 people, imprisoned more than 800 citizens for counterrevolutionary crimes, and executed up to 1,400 students and workers who participated in the democracy protests. In November, the President sent another delegation to meet the Chinese and, while martial law had been recently lifted in Peking, the government promulgated harsh new laws suppressing political dissent, combined the Peking police with several army units, and began a wholesale "purification" campaign of the Chinese Communist party, aimed at identifying and punishing democracy advocates. In the face of these facts, the President continues to insist that his policies are succeeding, and that Congressional protection of Chinese students seriously threatens his policy.

We do not subscribe to the President's point of view. While our relationship with China has always been complicated, the President's veto called into question United States support for human rights, and was seen as a cowardly kowtow to the butchers of Peking. We must not allow the Chinese government to believe that their brutal actions of last June are in any way endorsed by the government of the United States, and we strongly urge our colleagues to override the President's veto, pass H.R. 2712, and restore the luster to our tarnished human rights legacy.

**Those opposing the veto override contended:**

We share the revulsion and outrage of our colleagues over the deplorable behavior of the Chinese government last June, when it sent tanks into Tianamen Square to kill peaceful students whose only offense was to demonstrate for democracy. Such abhorrent behavior deserves the opprobrium of the world community. However, the Congress was carried away on an emotional tide last year when it passed H.R. 2712, and the President rightly vetoed the bill.

Uniquely qualified to judge the nuances of our relationship with China (George Bush served as America's liaison to China in 1975-76), the President believed that statutory protection would wreak havoc on the strategic U.S.-China relationship (and according to the Chinese Foreign Ministry, the consequences of a veto override would be quite grave). Instead, to protect the Chinese students and uphold our historic advocacy of human rights, the President by executive action altered the immigration status, not only of these 40,000 Chinese citizens, but all Chinese nationals currently in the United States who do not wish to return, protecting them for at least four years. Further, the President has promised, in his veto message, in communications with Senators, and in press conferences, that no Chinese student will be sent back to China until the conditions in China change.

JANUARY 25, 1990

VOTE NO. 1

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Since the President has done more by executive action than H.R. 2712 ever could, why then are we considering an override of the President's veto? Those who advocate passing H.R. 2712 argue that the President's China policy has been unsuccessful. We do not share that view. By carefully preserving the fundamental elements of the U.S.-China strategic relationship throughout the past several months, progress has been made in several areas. For example, China has: assured the United States that it will refrain from selling missiles in the Middle East; lifted martial law in Peking; released nearly 600 Chinese political prisoners; opened many previously sealed Catholic churches; taken an active and flexible role in the negotiations over the future of Cambodia; initiated discussions on a renewal of Fulbright fellowships and the operation of the Peace Corps in their country; and allowed over 7,000 new students to study in the United States. While the Chinese situation remains unsatisfactory, it is clear that the careful and measured diplomacy of President Bush has yielded progressive dividends.

With the President protecting all Chinese nationals in the United States, and the government of China relaxing its grip, we can only conclude that those who wish to override the President's veto are engaged in a crass partisan exercise that fouls any legitimate differences Senators may have regarding the President's foreign policy. It is no coincidence that all Democratic Senators support the override effort, that the Democratic leadership of both the House and the Senate have criticized the President's veto throughout the last two months (some using the pejorative term "kowtow" to describe the President's actions), and that this override attempt was scheduled as the first item of business for the Senate this year. We hope our colleagues will join us to reject this political exercise, support the President in his conduct of foreign policy, and resolve, in the future, to debate our differences on a more elevated plane free of partisan wrangling. We strongly urge all Senators to sustain the President's veto of H.R. 2712.

# Inside the White House

An  
Inside  
Washington  
Publication

an exclusive weekly report on White House economic, trade and regulatory policies

Vol. 10 No. 21 - May 23, 1991

## As Bush okays 'conditions'

### TREASURY URGES HILL TO KEEP CHINESE TRADE STATUS DESPITE MONEY FIXING DISPUTE

A senior Administration official last week urged Congress to retain Most Favored Nation status for China while the Treasury Dept. initiates negotiations with China over allegations that the country is possibly manipulating its currency to bolster its exports to the U.S., which have grown by 300% in the past three years. At the same time, the White House said it would accept "conditions" on continuing MFN which gives Chinese exports duty-reduced access to the U.S. market.

Willingness by the White House to accept conditions is in recognition of growing opposition on Capitol Hill to MFN based on allegations of human rights abuses, unfair trade practices and unwillingness to

continued on page 20

## Warns of sluggish recovery

### GREENSPAN SAYS CREDIT CRUNCH MAY HAVE BOTTOMED OUT; END OF RECESSION NEAR

Federal Reserve Board Chairman Alan Greenspan last week said that the credit crunch appears to have bottomed out, laying the groundwork for an economic recovery this quarter. At the same time, he said there are pervasive, underlying problems related to the low savings rate in the U.S. economy that will continue to keep the economy from growing at its full potential. As a way to remedy this, he offered lukewarm support for a bipartisan proposal in the Senate to significantly expand participation in Individual Retirement Accounts, which the White House opposes.

Greenspan was quick to point out that the credit crunch has not yet eased, and he joined the White

continued on page 6

### BUSH VOWS TO CONTINUE TO PURSUE VETO STRATEGY; WINS SUPPORT OF SENATE GOP

Senate Republican leaders last week strongly endorsed President Bush's vow that he would continue to pursue his successful veto strategy aimed at defeating Democrats' proposals on key legislative initiatives such as civil rights. The President's position promises another year of legislative gridlock between the White House and Congress and the likelihood that important pieces of legislation may die because Republicans and Democrats cannot bridge the gulf that separates them.

The President's pledge was greeted with strong support by Senate Minority Leader Robert Dole (R-KS) who agreed with Bush's assessment that the veto was the only way for the Republicans to block the Democrats. Dole even gave the President a "veto card" that resembles a Visa charge plate. Bush's

continued on page 7

## Calling it 'playing politics' with tax code

### ROSTENKOWSKI DENOUNCES GORE, GEPHARDT BID TO CREATE 35% TAX RATE

President Bush last got an unexpected ally in his efforts to defeat any income tax increases this year when the powerful House Ways & Means Committee Chairman Dan Rostenkowski (D-IL) denounced two Democratic presidential hopefuls -- Sen. Al Gore (D-TN) and House Majority Leader Richard Gephardt (D-MO) -- for "playing politics" with the tax code by seeking to raise taxes on the wealthy for purely self-serving political purposes. He said that last year's budget agreement specifically renounced playing politics with the tax code, but now Gephardt and Gore are trying to re-open the fairness and "tax-the-rich" debate to further their own political ends, without considering the consequences.

continued on page 2

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While not mentioning the Gore/Gephardt proposal by name, Rostenkowski made it clear that he would oppose the effort on several grounds, not the least of which would be his strong opposition to re-opening the tax code to make a "symbolic stand." He clearly indicated that he would oppose the "tax fairness" effort by stating his strong doubts the bid would pass the House, much less get the President's signature, hinting that he would vote to uphold Bush's veto and likely swing many Democrats over to his side, should it come to that.

He said the efforts to raise taxes violates the spirit of the budget agreement, which Rostenkowski said was a repudiation of playing politics with the tax code. "It was supposed to be a five-year agreement. Now less than a year later, some people are talking about undoing it. And that bothers me a lot. Maybe it's naive to think that the budget agreement could last five years -- but surely it could last two."

Rostenkowski said May 16 in a speech before the American Institute of Certified Public Accountants.

Still, he said that there was only a "50-50 chance" lawmakers would leave the tax code alone this year. There is strong opposition from Bush and Rostenkowski to re-opening the tax code, the chairman said. In addition to the political considerations, there are pressures created by the new budget law that make it virtually impossible for lawmakers to spend money on new programs likely without re-opening the tax code.

The Gore proposal would create a top tax rate of 35% for those earning more than \$250,000 annually while giving families an \$800/year tax credit for each child living at home (*Inside the White House, May 16, p4*). The Gore proposal is said to be attractive to Democrats because it revives the "fairness" and "tax the rich" issues that were so successfully used during last year's budget debate that eventually forced the President to accede to a tax increase, which led to a plummet in the polls that some say only a war could reverse.

There is another leading tax proposal, sponsored by Senate Finance Committee Chairman Lloyd Bentsen (D-TX), that seeks to make Individual Retirement Accounts more accessible by allowing everyone to contribute up to \$2000 in pre-tax dollars to the accounts. This proposal received the lukewarm support of Federal Reserve Board Chairman Alan Greenspan last week, who said it is better to err on the side of increasing savings than to do nothing. But Greenspan warned lawmakers against offsetting the IRA expansion cost by raising taxes, saying higher taxes could have a deleterious effect on the economy (see related story).

Rostenkowski opposes any changes in the tax code, but he said he views the "smoke signals coming from my party's camp with mixed emotions." Rostenkowski said there is no bigger proponent on Capitol Hill of tax fairness than himself. "No one believes more fervently than I do that middle-income Americans desperately need some help. But I think it would be a particularly tough sell to convince middle-income taxpayers that they're better off with an \$800 credit, rather than a \$2100 personal exemption," he said, referring to the Gore proposal.

"But from my perspective, waging a battle over tax fairness this year is not without its risks," Rostenkowski said. He noted the changes to the tax code last year, especially the elimination of the "bubble" by imposing an explicit 33% rate on upper-income taxpayers. He said that the creation of the bubble in the first place, which he called "foolishness," had to do "with playing politics with the tax code. To my way of thinking, last year's agreement was an implicit renunciation of tax tinkering for political purposes."

He said he is bothered by the "threat to tax stability a new tax bill promises. I've said many times this year that I believe the American taxpayer needs a rest. I'll say it again. The practice of annually rewriting the tax code imposes a tremendous burden and creates tremendous uncertainty. We should not engage in political tax wars lightly."

Rostenkowski said he believes in taking action with the idea of getting something accomplished. I'm no fan of symbolic stands. And frankly, I'm very doubtful that a tax fairness package would pass the House of Representatives much less get the President's signature."

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Inside the White House is published every Thursday by Inside Washington Publishers, P.O. Box 7167, Ben Franklin Station, Washington, D.C. 20044. Subscription rates: \$495/yr in U.S. and Canada; \$545/yr elsewhere (air mail). Copyright 1991 by Inside Washington Publishers. All rights reserved. Reproduction in any form whatsoever forbidden without express permission of the copyright owners.

# Budget Briefs

## Bush Says He May Accept Iraqi Oil As Partial War Reparation Payment

President Bush last week indicated that he may accept Iraqi oil in lieu of hard cash as a partial payment for war reparations that the U.S. is insisting Iraq pay for its occupation of Kuwait that led to the Persian Gulf war. While the Administration's position is still being worked out, the President did not dismiss out of hand Iraq's offer to pay 25% of its reparations in oil.

When asked if he would accept Iraq's paying 25% of its reparations in oil, the President last week said "I don't have a percentage in mind." He spoke to reporters at the White House shortly after he returned from Capitol Hill where he attended a meeting with Senate Republican leaders.

"We're working out an Administration position on that," Bush said. He added that the "main thing is full compliance with all U.N. resolutions . . . that's the key point." This is being interpreted to mean that if the U.N. says oil would be an acceptable form of currency for war reparations, then the U.S. likely would support it. The U.N. is expected to okay the payment of war reparations partially in oil, although it was not known by press time May 21 how great a percent of oil would be able to be used as reparations, the level of which has not been decided.

## Foley Denounces Brown-Domenici Budget Amendment as Conferees Yank It from Bill

House Speaker Thomas Foley (D-WA) last week denounced an amendment to the Senate budget resolution precluding tax increases to pay for new entitlement spending, that was subsequently removed in House-Senate conference last week, as a violation of the spirit of the five year budget agreement. In unusually harsh language during the actual negotiations on the budget between the House and the Senate, the Speaker made it clear that he was strongly opposed to the amendment and wanted to see it taken out of the conference report, which was expected to be filed by the House Budget Committee on May 21 with floor action anticipated as early as May 22. The Senate could also take up the budget resolution on May 22 if the House passes it early in the day. The budget resolution is non-binding and the President has no direct role, given neither the power to approve nor veto.

The amendment, sponsored by Hank Brown (D-CO) and the ranking Republican on the Budget Committee Pete Domenici (R-NM), would have precluded lawmakers from raising taxes to pay for new spending on entitlements, as the budget agreement currently permits. Instead, according to the amendment, all entitlement spending would have to be paid for with offsetting spending cuts in other entitlement programs. But the amendment was doomed from the outset. Senate Budget Committee Chairman Jim Sasser (D-TN) opposed it and told Brown he would work to have it removed in conference committee, which he did.

Foley told reporters last week that he regards the "so-called Brown amendment as a direct violation of the spirit of the budget summit agreement, and I think it is absolutely unacceptable. The proposal to interfere with a solemnly undertaken agreement on fundamental questions relating to the pay-as-you

go procedure is, in my view, a direct challenge to the agreement and to the good faith undertakings of the agreement."

No one fought hard for the Brown-Domenici amendment in conference committee. Neither Brown nor Domenici sat on the conference committee. Brown wasn't selected and Domenici chose not to participate.

One of Domenici's major initiatives was adopted, according to sources. This requires a 60-vote majority in the Senate to make any changes to the Social Security trust fund, virtually guaranteeing that any subsequent efforts in the Senate to refund the surplus in the form of a payroll tax cut would be defeated unless there was overwhelming support. The only proposal to be voted on the floor this year was sponsored by Sen. Daniel Moynihan (D-NY), which was defeated by a 60-38 vote (*Inside the White House*, May 2, p7).

## Hill Failure to Pass Export Control Bill Leads to Drastic Cutbacks at ITA

Congressional failure to pass a bill to reauthorize the Export Administration Act (EAA) has led to a budget crunch at the International Trade Administration (ITA), according to informed sources. As a consequence, Commerce Undersecretary Michael Farren has had to make drastic cutbacks and prepare agencies involved in export promotion for possible summer furloughs.

Because of a projected \$18-million shortfall deriving from the lack of a higher authorization that last year's EAA would have provided, ITA has imposed a hiring freeze, a prohibition on all but highest priority travel, and tightened procurement policies for its export promotion sub-agencies. Hardest hit is expected to be the U.S. Foreign & Commercial Service, although the International Economic Policy and Trade Development Administration divisions would also be affected. ITA personnel directly involved in the administration of U.S. trade laws would not be affected by the cuts, according to an ITA source. On May 9, Farren sent a memo to the heads of the affected divisions, outlining the situation and noting that furlough notices may have to be delivered in June to provide the 30-day notice required before they would take effect in July, according to an informed ITA source.

The EAA vetoed by President Bush last year would have authorized \$165-million for ITA operations this year. Without it, the Commerce agency cannot spend any more than the \$146-million it was appropriated at the beginning of the year. The Senate passed an amendment on May 9 that would have restored ITA funding, but the House has yet to approve a similar measure, according to sources.

## In Surprise Move, Aspin Will Ask House To Add \$200-Million to Phase I SDI

In a turnabout from last week's move by the House Armed Services Committee to zero the Brilliant Pebbles-centered phase I strategic defense program element, panel Chairman Les Aspin (D-WI) surprised observers by offering an amendment to the defense authorization bill on the House floor which rein-

# Budget Briefs

states funding for the line item at \$200-million. Aspin's amendment joins nine other proposed modifications to the bill, ranging from restoration of the Brilliant Pebbles space-based interceptor program, to termination of the SDI Organization altogether. It was unclear at press time which of these proposed amendments would gain the support of the House, which votes on the bill early this week.

Reportedly Aspin offered the amendment to respond to protests of SDI supporters and detractors alike who criticized the committee's earlier move because it had the effect of killing some programs which support the more popular ground-based defenses in addition to supporting Brilliant Pebbles. The Administration had requested \$1.61-billion for phase I in FY-92, \$659-million of which was for Brilliant Pebbles. Aspin's amendment restores just \$200-million to the phase I category, drawing funds off other program elements to do so. The amount reinstated into the program element may be enough to salvage some supporting research and development programs, but likely could do little to maintain Brilliant Pebbles as the centerpiece of SDI, as the Defense Dept. would like.

The House Armed Services bill authorizes \$2.66-billion for SDI, granting the Administration request for \$857.5-million for tactical defense but moving it into a proposed separate Army account called the Joint Tactical Missile Defense Program. The Administration had requested a total \$5.15-billion for SDI, including funding for the currently SDI Organization-run Theater Missile Defense Initiative.

The proposed Aspin amendment maintains the earlier committee provision that only those programs which "have as their primary purpose the support of the Brilliant Pebbles" system may be funded under the phase I heading. This would seemingly force the SDI Organization to move the more widely supported programs currently funded under phase I, such as the ground-based Endo/Exoatmospheric Interceptor (previously known as "HEDI"), over to another program element, such as "limited protection systems."

Brilliant Pebbles is the SDI Organization's centerpiece for its newly revised strategic defense system, dubbed Global Protection Against Limited Strike (GPALS). SDI proponents maintain that the space-based interceptors will be effective against strategic ballistic missile launches in their boost phase, as well as against theater ballistic missiles with ranges over 300-600 miles. SDI chief Henry Cooper last week said that the House Armed Services Committee "took a meat axe to Brilliant Pebbles, and slipped a knife in the back of any effective ground-based defense" by separating strategic and theater defense funding, and by zeroing the phase I program element despite funding under that category for non-space-based programs.

## Appropriators Expected to Follow Aspin's Lead on Zeroing B-2 Buy

The House Appropriations Committee will likely zero out funding for B-2 Stealth bomber procurement in FY-92, following the lead of the chamber's Armed Services Committee, which last week produced an authorization bill denying B-2 procurement funds, sources on Capitol Hill say. The Appropriations Committee begins its mark-up this week and although

there now appears to be substantial support for the B-2 among Appropriations defense subcommittee members, it is doubtful such support will translate into a final committee vote supporting an Administration request for \$2.46-billion in B-2 procurement funds, the sources say.

Denial of B-2 procurement funds led the White House this week to threaten to veto the Defense Authorization bill (see related story). It is not known whether the President would ultimately veto the Appropriations measure because of inadequate B-2 funding, although at least one White House source said he would.

If the committee vote were to produce a defense appropriations bill allowing for new B-2 buys in FY-92, the measure would result in a direct conflict with the Armed Services Committee bill and would likely end up being resolved in the House "behind closed doors," one source said.

"I don't think it's very likely that the appropriations committee is going to do something that is in direct conflict with the armed services committee," the source said. "It could happen, mind you. But I don't think it will."

Nevertheless, at least a half dozen Appropriations defense subcommittee members favor full funding for the B-2. Two more are undecided on the issue. The subcommittee's apparent support for B-2 leads some observers to believe there is a chance the Appropriations Committee will go against the vote produced by the Armed Services Committee. The authorizers' vote was spearheaded by the committee's chairman Rep. Les Aspin (D-WI).

House Appropriations subcommittee members known to be in favor of B-2 funding are: Norman Dicks (D-WA), Jerry Lewis (R-CA), Bob Livingston (R-LA), Clarence Miller (R-OH), Charles Wilson (D-TX) and Bill Young (R-FL). Reps. Julian Dixon (D-CA) and Bill Hefner (D-NC) are still undecided on the issue, according to aides for both members. Subcommittee chairman John Murtha (D-PA) is believed to support B-2, but aides for the congressman failed to respond this week to inquires seeking clarification on Murtha's position.

Known to solidly oppose B-2 are Reps. Les AuCoin (D-OR) and Martin Sabo (D-MN).

Dicks is busily working to drum up a wider base of support for B-2 funding among Appropriations Committee members, according to congressional insiders. The Oregon Democrat got himself into "a bit of trouble with Aspin last week" when he told reporters that the powerful Armed Services Committee chairman was maneuvering to reach a compromise plan to fund some level of B-2 procurement this year, one source said.

Aspin's aides spent the latter part of last week and much of this week denying that their boss was wavering in his long-held opposition to the B-2. But despite those denials, numerous other sources reported that Aspin is indeed willing to compromise on the issue this year if such a compromise will, in the words of one congressional observer, "put an end to the perennial B-2 debate once and for all."

Meanwhile, Pentagon sources say that should an Appropriations Committee vote result in a bill calling for appropriation of B-2 procurement funds for FY-92, the Defense Dept. would, in essence, ignore the authorization bill. Whether funding is authorized matters little to DOD if funding is, in fact,

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appropriated, the sources say.

## Pentagon Backs Off Plan to Set Up Personnel Accounts as Revolving Funds

The Office of Secretary of Defense (OSD) has backed away from a plan to set up the Service's military personnel accounts as revolving funds, Defense Dept. sources say. The plan, first floated last December, was designed to make commanders in the field more "cost conscious" by giving them responsibility for determining personnel levels, these sources say. But the military Services objected to the proposal, claiming it was not workable.

The "proposal is based on [the] premise that military personnel are purchased and used by a customer and that the customer has freedom to choose. This is not the case," Army Under Secretary John Shannon explained in a Dec. 21 memo to Deputy Defense Secretary Donald Atwood. "Military personnel costs are tied to the Force Structure which is centrally derived from analysis of the threat and should not be subjected to business management in the same sense as other business functions," he wrote. Shannon also noted that there is no demonstrated benefit to bringing military personnel costs into a revolving fund; there are, however, plenty of "readiness risks" if the system fails.

Under the revolving fund concept, a customer -- in this case the military -- pays for the goods and services it needs. By applying this concept to the military personnel accounts, commanders "in the field" would be responsible for determining what personnel levels they needed. Because these commanders would have to set up a personnel budget, OSD hoped they would be more frugal with their spending and not ask for more personnel than they could afford. But, as Shannon explained, military force levels are determined by the military departments after a lengthy threat analysis.

Shannon's comments -- as well as comments from the other Services -- were delivered to Atwood when OSD was still seriously considering a revolving fund approach for the military personnel accounts. But a Feb. 2 memo approved by Atwood, which outlines a series of Defense Management Report (DMR) actions, indicates OSD was stepping away from the original plan to set up military personnel revolving funds beginning in FY-93. "Nothing in this proposal would require changes in the levels where decisions are made, such as requiring or allowing each operating unit to establish its personnel requirements," the Feb. 2 memo states. "Nothing in this proposal will negate the need to assign personnel for training, rotation, or career development purposes."

But the memo also notes that "the alternative would make the current Military Personnel accounts reimbursable in FY-93; would establish these accounts as revolving funds; but would make no changes to the appropriation distribution at this time." DOD sources point out that although the memo calls for making the accounts revolving funds, without a change in the actual distribution of military personnel funds the budgeting process essentially remains the same. The wording in the DMR decision paper is intended to get the Services "thinking about" the military personnel accounts as revolving funds, said one Army source.

The Feb. 2 memo does detail the benefits of establishing the military personnel accounts as revolving funds, which suggests the idea is not dead, sources note. "Changing the military personnel accounts to revolving funds will provide the flexibility that a totally reimbursable approach requires," the memo states. "The revolving fund approach will provide the corpus to adjust to short run changes in requirements, and allow the costs to using activities to be charged on the basis of an average cost per individual and stabilized," the memo notes.

## House Panel Urges Major Funding Boost For U.S. Tank Development, Production

The House Armed Services Committee May 8 approved a measure that would breathe new life into the deflated U.S. tank industry by creating considerably more M1A2 tank research & development, procurement and upgrade work than was requested by the Administration.

The Committee argued in its FY-92 defense authorization report that buying 60 more top-of-the-line M1A2 tanks and upgrading possibly thousands of current M1 tanks to M1A2 configuration would preserve the U.S. tank industrial base and boost U.S. warfighting capabilities. Accordingly, the Committee authorized \$90-million to build an additional 60 M1A2 tanks on top of the 62 already planned for production by the Army. The Committee urged the Army to budget its remaining R&D money for the M1A2 in order to begin full rate production by December 1992.

The additional M1A2 production is envisioned by the Committee to keep the tank production lines moving until late 1994 when the tank lines should begin delivering upgraded M1A2s, which are to be converted from the current inventory of about 3,000 basic M1 tanks. For that upgrade program the committee set aside \$64.4-million for development and \$225-million in advance procurement funds, and it directed the Army to proceed at a rate of 20 tank upgrades monthly as soon as possible. Pentagon budget officials overruled initial Army requests to fund an upgrade program during the internal Defense Dept. budget deliberations and instead opted to apply all tank-targeted money toward the development of the next generation Block III tank.

The Committee's decision to impose the upgrade program fits the general philosophy of the panel that existing conventional systems should be improved upon and next-generation weapons efforts should be slowed. "The Committee does not agree with the Army's position to accept the near- and mid-term risk of having no U.S. tank production base for what could be a period of six to seven years between the end of the M1 production and the beginning of the Block III tank production, if future foreign military sales orders do not materialize," the Committee report language said.

The experience of the Persian Gulf War illustrated the need to have upgraded tanks, the Committee argued. During the conflict, U.S. commanders initially chose to deploy the M1s but later decided to withdraw the older tanks in favor of the newer M1A1 tanks. "This fact itself serves to mute those who would argue that an upgrade program should not be pursued and reinforces the Committee belief that the Army cannot afford not to proceed with upgrading its inventory of older M1s rather than

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have them rendered unusable in any future conflict," the Committee said.

As part of its decision to significantly boost the current domestic tank works programs, the Committee specifically urged the Army to keep open beyond FY-92 a facility in Idaho that makes depleted uranium armor for new model tanks.

Senate sources this week said they expect some funding to

be put aside for M1 upgrades in the Senate, but the question of how much funds has yet to be determined. But while it may appear that Congress clearly favors the M1 upgrades — it appropriated funds in the last session for the current fiscal year for such upgrades — it appears just as clear that the Pentagon is resisting taking money out of other priority programs to perform them.

## GREENSPAN SAYS CREDIT CRUNCH MAY HAVE BOTTOMED OUT . . . begins on page one

House in criticizing the tight lending policies of banks as largely responsible for the economic downturn that private-sector economists now say began in July. Greenspan spoke before the Senate Finance Committee May 16 at a hearing on the U.S. saving rate and whether expanded IRAs will help.

The widely held conclusion that the recession began in July was disputed by the White House this week. Budget Director Richard Darman, while agreeing that the credit crunch is partially responsible for the recession, said this week that it was Iraqi President Saddam Hussein's Aug. 2 invasion of Kuwait and the resulting spike in oil prices that led to the recession. Darman also blamed the Fed's tight monetary policy as being partially responsible for the recession. He spoke May 19 on NBC's *Meet the Press*.

Darman's comments are important because the White House is trying to portray this recession as shorter and shallower than the post-War II average of 11 months. Most economists now agree the recession could equal the post-War average in length, but they also agree with the White House that it will be "shallow." Democrats, on the other hand, say that this recession, by post-War standards, is serious.

While indicating his belief that the recession would soon end and that banks are likely to begin easing credit availability, Greenspan also sent the markets downward by indicating that it may be impossible to keep worldwide interest rates low. Greenspan's comments on the near end to the recession are also being interpreted as an indication that the Fed will not reduce interest rates further, a belief that sent bond prices sharply downward last week.

Regarding interest rates, Greenspan said there is "no reason they can't be kept low," but he refused to say whether he would seek to lower them again to help in the economic recovery. It is widely believed among economists that the Fed will not lower interest rates further mainly because of expectations that a softening of the credit crunch will lead to economic recovery. Lowering interest rates during recovery could ignite inflation. The Fed has a stated policy of trying to keep inflation low, which is why it has steadfastly refused to loosen its grip on the money supply and cut interest rates.

The Fed's belief that the credit crunch, which banks say does not exist (*Inside the White House, May 9, p1*), may be easing is based on its national summary of the May 1991 Senior Loan Officer Opinion Survey on Banks' Lending Practices, released last week. While the study does not see any evidence that banks have loosened up on making credit available, the credit crunch appears to have hit its trough, the report says, because "banks on balance reported no change in their willingness to lend in the last three months, compared with some reduced willingness to lend in the three months ending in late January." And, the number of banks reporting tighter lending standards for approving loan applications for nonmerger-related purposes "was substantially lower than in the survey taken in late January. This drop continues a downtrend in the number of banks reporting tighter standards," the report states.

The reduced evidence of further restrictions on lending "may be related to the recent marked improvement in [the banks'] ability to raise capital. With bank share prices up and with spreads of yields on bank debt over Treasury securities down, domestically chartered banks have issued a large volume of debt and equity thus far in 1991," the report says.

And, significantly, of those banks that did report tightening of credit in May "virtually none mentioned pressures on capital positions or deteriorating loan portfolios as a reason." In earlier surveys, "a number of banks had cited these factors as motivating tightening," according to the report.

Even if the credit crunch is ending and the recovery begins, it likely won't be a robust one because there are inadequate saving levels in the U.S., Greenspan said at the Finance Committee hearing. "Put simply, inadequate domestic saving is impairing our economic prospects for the longer run," he said. While offering only lukewarm support for the IRA expansion proposal, sponsored by Finance Committee Chairman

Lloyd Bentsen (D-TX) and William Roth (R-DE), Greenspan said it might be appropriate for the government to somehow intervene in the marketplace to encourage a higher level of savings.

"I say this with full recognition that the appropriate level of saving for any economy is best left to private preferences, as reflected in the marketplace. However, as a society, we have in recent decades clearly intervened in the market process through subsidies that enhance consumption at the expense of saving. And, we would be well-advised to endeavor to redress such imbalances," Greenspan said.

Failure to save now limits "our ability to expand and upgrade our stock of capital," Greenspan said. "It is the size of that stock and the new technologies embedded within it that, together with the quality of the labor force, ultimately determine our overall productive capacity and the future standard of living of our population," he said. Greenspan said that, with the aging of the population, he "agrees that" it will be important to provide incentives to bolster the savings rate at the beginning of the 21st century. "We will have to supply capital investment in the early part of the next century," Greenspan said; "not only to provide a standard of living for the workers [but to maintain one] for the retirees. Savings enhances the ability of families to support their own needs. Do I think there should be private savings? Indeed; I do," Greenspan said.

Greenspan failed to wholeheartedly endorse the expanded IRA concept, as Bentsen and Roth had hoped. He offered lukewarm support by saying that it is "probably worth a chance." He said there was no statistical evidence that expanding IRAs would increase the national savings rate. But, he pointed out, there are no data to suggest the opposite. "If you look at the statistics, it is difficult to say" what would happen to savings if IRAs were expanded. It's "probably worth a chance, even if [there were] no major net addition to savings [because] very limited damage would be done." He took this point, he said, because "I'm more inclined to take chances [to improve the savings rate] even though [I'm] not analytically convinced. The evidence is inconclusive. It is a question of whether one wants to risk in this direction. . . . If you succeed, the payoffs are large."

But Greenspan warned that the new budget law requirements mandating that offsets be found to pay for the money the government would lose by expanding IRAs -- estimated at over \$25-billion in five years -- may negate any positive benefits expanded IRAs could have to the economy. "Tax increases might be proposed under the requirements of the statute which might be counterproductive," Greenspan said. "If you view incentives as beneficial, be careful you don't take other actions that are deleterious to the economy," Greenspan said. He added that he would prefer to see spending cuts to make up the offsets rather than tax increases. "I'm biased toward cuts in spending rather than increases in taxes," Greenspan said.

## **BUSH SAYS HE WILL CONTINUE TO PURSUE VETO STRATEGY . . . begins on page one**

reiteration of his veto strategy was almost immediately followed by a White House threat this week to veto the Defense Authorization Act because Democrats seek to eliminate the controversial B-2 Stealth bomber while making deep cuts in Space Defense spending (see related story).

Bush said the veto was "very important. When we're a minority, the only way we're going to get something done is to beat down the bad ideas before we get a shot at the good idea." Bush made his remarks in the Capitol on May 15 during a half-hour meeting with the Senate Republican Leadership. Bush commended the Republican leaders for supporting him last Congress and helping him to have a perfect veto record, which is unprecedented for any modern President, according to sources. He added that "sometimes, I know it's not easy; sometimes you can't join us, but for the most part, we've been very good about it, and I just urge your strong support for this veto strategy. It's the only way we can get decent Republican ideas" passed.

In support of the veto strategy, Sen. Orrin Hatch (R-UT) handed the President a letter with the signatures of 35 senators (mostly Republicans) vowing to support Bush if he vetoes, as threatened, legislation that would prohibit the use of alternate, non-union personnel during strikes. The bill, S.55, known as the strike-breaking legislation, was sponsored by Sen. Howard Metzenbaum (D-OH) and has 30 cosponsors.

The meeting with lawmakers was called to discuss the domestic agenda, which the President told reporters at the top would dominate. He chastised his critics for saying the White House has no domestic agenda. "I get sick and tired of people saying we don't have a domestic agenda, because they've got their eyes closed and they don't want to hear." Back at the White House after the meeting, Bush told reporters that the transportation and crime strategies were discussed.

At the Capitol, Dole said the President opened the meeting with a discussion of Bob Gates, Bush's nominee to direct the Central Intelligence Agency. Dole said the President expressed his strong support for

Gates and asked the Republicans to back the nomination, which Dole said they would.

Despite the President's emphasis on the domestic agenda, international issues dominated, according to sources. During the meeting, Bush discussed the "fast track" legislation that precludes amendments to trade treaties (in this case with Mexico) when they reach the Senate floor. The President also discussed renewing most favored nation trade status for China and the Soviet Union's request for \$1.5-billion in agricultural credits to purchase grain from the U.S.

## REPUBLICANS ENCOURAGE BUSH TO INVOKE LINE-ITEM VETO, TEST CONSTITUTIONALITY

A coalition of House and Senate Republicans last week urged President Bush to invoke a line-item veto to settle once and for all whether the Constitution implicitly grants this power to the President. The White House has long maintained that the President has implicit line-item veto authority in the Constitution, a contention Democrats in Congress dispute. The President has been steadily building a case for the line-item veto and last year began signing bills into law while, at the same time, telling lawmakers which provision he would not follow. In doing this, the President has been invoking a de facto line item veto and sources expect the issue to be challenged in the Supreme Court once the President refuses to execute a key portion of a law he has de facto line-item vetoed.

But the Republican coalition, led by Sen. Bob Smith (R-NH) and Rep. Tom Campbell (R-CA), last week urged the President to take a more direct route and veto line items specifically out of appropriations bills when they cross his desk. While not pointing to any specific piece of legislation for the test case, the Smith-Campbell coalition is seeking to pass a resolution in Congress that would express the support of the lawmakers for such a step. The resolution likely won't pass because of strong opposition from Democrats, according to sources.

The most likely vehicle for line-item veto would be for Congress to pass an omnibus continuing resolution designed to fund the government for the coming fiscal year, rather than individual appropriations measures, according to sources. The strategy widely expected in the White House is that, should Congress present the President with an omnibus bill, he will item-veto an entire functional appropriation that should have been sent to him separately. The thinking behind this, according to sources, is that the President would be exercising his clear constitutional veto authority by technically vetoing one single bill (that would have otherwise come to him under separate cover) while invoking line-item veto by removing the bill from the larger piece of legislation.

"Clearly it was not the intent of the framers [of the Constitution] that Congress roll unrelated items into a single, massive, take-it-or-leave-it bill," said Campbell, who serves on the House Judiciary Committee. "But omnibus pork bills are par for the course in Congress today."

Smith and Campbell say Article I, sec. 7 of the Constitution grants line-item veto power to the President. Clause 3 of the section says "every order, resolution or vote . . . shall be presented to the President of the United States; and before the same shall take effect, shall be approved by him . . . or disapproved by him."

This clause, say Smith and Campbell, gives the President line-item veto authority. White House Counsel C. Boyden Gray agrees with Smith and Campbell. Gray is the chief architect of the White House strategy designed to win line-item veto for the President.

Democrats say there is no line-item veto authority contained in the Constitution, implicitly or otherwise. They say the concept of line-item veto authority is relatively new and was not contemplated by the framers.

## BUSH THREATENS TO VETO DOD AUTHORIZATION BILL OVER B-2, SPACE DEFENSE CUTS

President Bush this week threatened to veto the Defense authorization bill over cuts made by the House in the controversial B-2 "Stealth" bomber and in the Strategic Defense Initiative programs. The threat came days after the President informed the Senate Republican Leadership that he would continue to pursue an aggressive veto strategy aimed at defeating initiatives by Democrats with which the White House and GOP do not agree (see related story).

The President's veto threat also came on the heels of a similar threat by Defense Secretary Dick Cheney, who told CNN's *Evans & Novak* May 18 that the B-2 bomber and the SDI are "absolutely vital" defense systems to the Administration's defense strategy. "And if the bill the finally is approved by the Congress does not contain the B-2 and adequate funding for the SDI, I will recommend a veto," Cheney said.

*continued on next page*

He added that, ultimately, the Administration would like 75 B-2s, noting that the President sought four in the FY-92 budget. When asked if he would compromise on the 75 B-2s, Cheney hedged. "You don't want to foreclose what ultimately is going to come out of the legislative process. But if the bill is inadequate in our strategic systems, the B-2 and SDI, I will recommend a veto."

The White House, in a statement of policy containing the veto threat, said this week that the bill contains a "number of objectionable provisions that would severely compromise the Administration's national defense objectives." Of "particular concern" to the White House is the fact that the House legislation seeks to: 1. "eliminate funding for continuation of B-2 Stealth bomber procurement, despite the importance of this system in maintaining strategic deterrence; 2. underfund the SDI program, terminating key elements of the Administration's initiative to provide global protection against limited strikes," the cornerstone of the President's revamped SDI program; 3. fund unrequested or low priority programs, such as the V-22 [tilt rotor "Osprey"] aircraft; and 4. limit planned reductions in Reserve and National Guard forces, which would cause imbalances in the total force structure."

The White House plans to work with the Senate, which is considered to be more sympathetic to the Administration's defense program, when it readies its legislation for passage in July, according to sources. It is not certain whether the Senate will ultimately agree with the President's defense plan -- there is opposition to the B-2 and the SDI in the Senate, though Armed Services Committee Chairman Sam Nunn's (D-GA) thinking is seen as more in line with the President's than with Nunn's counterpart in the House, Rep. Les Aspin (D-WI). If the Senate agrees with the President and opposes the House, there likely will be a major dispute between the two chambers when they meet for conference to hammer out a single bill sometime this summer.

Cheney said he ultimately expected lawmakers to be more sympathetic to Bush's defense budget for FY-92, following the tremendous success of the Persian Gulf war. When asked on the CNN program if he expected to get a "bump" out of the Gulf war from a Congress that may have had a different attitude about anti-missile defense, Cheney said, "I would think so. I find it very difficult to understand why my former colleagues in Congress, some of them, feel that we don't need ballistic missile defenses. But there are people up there who honestly believe it's a mistake for us to develop ballistic missile defenses. But after you watched the Scuds fly in Tel Aviv and Riyadh, I find that impossible to understand," Cheney said.

### **Though still in dispute with GAO over total cost**

## **WHITE HOUSE: WAR WON'T COST U.S. MORE THAN THE \$15-BILLION ALREADY RECEIVED**

The Administration last week told Congress that the Persian Gulf war won't cost U.S. taxpayers any more than the \$15-billion Congress has already appropriated, even though the White House continues to be in dispute with the General Accounting Office over the total cost of the conflict, according to sources. While congressional sources say the Administration and GAO moved closer than they've ever been last week on the total cost to the U.S. taxpayer, there remains a dispute of between \$20- and \$30-billion on what the ultimate cost of the war will be, with the Administration saying between \$60- and \$70-billion and GAO putting the cost at \$40-billion (*Inside the White House, May 16, p1*).

It is widely believed on Capitol Hill that the White House is "highballing" the total war cost in an effort to avoid the appearance that the U.S. is profiting in any way from the allied pledges of support for the war, according to sources. Defense Comptroller Sean O'Keefe last week denied this during a hearing before the House Budget Committee in which the discrepancy between the Administration's and GAO's total war cost figures was discussed. Congressional sources say the Administration is lumping in its cost figures the replacement costs of all weapons expended during the war even if the Pentagon has no intention of replacing them. The Administration does not deny this charge, with one source saying that even if no replacement is planned, a value has to be put on the hardware to determine what the war cost the U.S.

The Administration continues to deny it is trying to avoid either having to return money to the allies or creating the impression that the U.S. would profit from the conflict, according to sources. But it is clear that the White House's figures, which are not final, tend to be on the high side with an eye toward the \$54.5-billion in allied pledges, of which about \$36-billion have been received. One Administration source noted that there is some concern inside the White House that the allies will not fully pay their war pledges if it appears that the war will not cost what the U.S. originally projected. But he was quick to point out that this was not a factor in developing the cost estimates.

The Pentagon and the Office of Management & Budget said recently that the incremental cost of the war from August 1990 through March 31, 1991 is \$36.1-billion, but O'Keefe pointed out that these "are

partial and preliminary. They do not include such items as total costs of equipment repair, rehabilitation, and maintenance caused by high operating rates and combat stress. They also do not include the total costs of phasedown of operations and return of deployed forces. Further, certain long-term benefit and disability costs have not been reflected in the estimates. Costs through March, plus costs not yet reported, are expected to result in total incremental costs of \$60-billion or more," O'Keefe said.

One of the unknowns involves removing equipment from the Gulf theater, O'Keefe said. "This task is proving to be slower and more involved than some may have expected. Loading ships and planes takes longer than unloading, even without the added requirement of thoroughly cleaning and inspecting everything." Another unknown cost is for U.S. personnel required to support the equipment removal and for other tasks. "It is uncertain how many personnel will be needed. As of May 14, 128,000 U.S. military personnel were in the CENTCOM [Central Command] area of responsibility (as distinguished from the European Command's area in eastern Turkey and northern Iraq). Over 413,000 troops have redeployed from the Gulf war -- which is over 76% of the total force there during the war," O'Keefe said.

Also not yet fully reported are "certain special pay, benefits and veterans costs. . . . The dollar amounts of these are relatively low, but they reflect our nation's gratitude to its uniformed men and women and their families," O'Keefe said.

The costs already reported include an estimate for most losses of major "end items (aircraft, tanks, etc.)," O'Keefe said. "However, decisions on replacing those major losses have not yet been completed. Additionally, there is still a great deal of assessment going on to determine the actual consumption or degree of damage to support equipment, munitions, and other items. Much of this is being done at the deployment ports. We also are analyzing the magnitude of the wear and tear on major equipment to determine what refurbishment may be necessary. So it will be a while before we know all the repairs, rehabilitation, or restocking that will be required as a result of Gulf operations."

GAO says that, on balance, most of the costs reported by OMB thus far appear to be "reasonable, but we believe that the estimate of future costs is unsupported and appears high," according to Assistant Comptroller General (national security & international affairs) Frank Conahan. "More importantly, we believe that incremental funding requirements will be substantially less than OMB's cost estimate, and that FY-91 incremental funding needs can be fully financed through allied contributions to the Defense Cooperation Account," a statement the White House disputes.

DOD estimates the cost for a three-month post-combat period redeployment will be \$12.2-billion, according to GAO. The remaining cost of at least \$16.2-billion is primarily due to the cost of equipment refurbishment. "We have not had an opportunity to evaluate DOD's \$12.2-billion estimate for the three-month post-combat period and redeployment, but have seen no evidence to dispute it," Conahan said.

"The residual \$16.2-billion for additional costs is unsupported," according to Conahan. "DOD has not yet developed an estimate for the majority of these costs. In addition, the residual cost appears high because some funds are already available for equipment refurbishment," GAO says, noting that the FY-91 defense budget includes \$8.4-billion for depot maintenance, which fund the overhaul, repair, and maintenance of aircraft, missiles, ships, combat vehicles and other equipment. "While this budget is for all of DOD, given the large volume of equipment deployed to the Persian Gulf, it is reasonable to assume that a portion of these funds would have been available for refurbishing this equipment," Conahan said.

"Furthermore, DOD's post-combat phasedown cost estimate includes \$600-million for all equipment to be inspected and fully repaired using in-theater spare parts. Consequently, while the final cost of equipment repair and maintenance remains unknown at this time, we believe the incremental cost could be less than \$16.2-billion," according to Conahan.

"Finally, although there may be additional costs, there may also be reductions in future budget needs because of the buildup of inventories that were not needed as a result of the war's short duration," Conahan said.

### **Far below OMB figure**

### **GAO SAYS TOTAL WAR FUNDING REQUIREMENTS WILL BE \$33-BILLION FOR FY-91**

The General Accounting Office last week said it expects total funding requirements for the Persian Gulf war will be \$33-billion in FY-91, a figure that is far below the \$50- to \$60-billion the Office of Management & Budget says will be needed for the year. The total cost of the war, including money expended in FY-90, is expected by the White House to top \$60- to \$70-billion, a figure GAO says likely will only be about \$42-billion.

The differences in the estimates have led to charges on Capitol Hill that the White House is overstating the true cost of the war in an effort to make sure that none of the allied contributions

(pledged at \$54.5-billion, with \$36-billion already received) would have to be returned. Lawmakers also charge the White House with inflating the figures to avoid the appearance that the U.S. is profiting from the war, a charge the White House denies.

GAO calls "unsubstantiated" most of the figures on the total cost of the war being presumed by the Office of Management & Budget and the Defense Dept. At the same time, though, GAO is noting that an "important distinction needs to be made between costs and funding needs," according to Assistant Comptroller General (national security & international affairs) Frank Conahan, who testified before the House Budget Committee on the issue on May 15. "Funding represents outlays that the United States will ultimately be required to make, either from funds contributed by the allies or from the new budget authority provided by Congress."

It is not expected that the White House will seek to get Congress to appropriate any more than the \$15-billion it already has given for the war because of the expectation that the lion's share, \$54.5-billion, will come from the allies, based on their pledges. Still, GAO says that the entire \$15-billion may not have to be spent by the Pentagon on expenses related to the war because much of the equipment already expended will not be replaced and there was a ramp up in production of certain missiles and equipment that was expected to be used but never was.

Administration estimates for the incremental costs of \$43.8-billion include "actual expenditures, the value of assistance-in-kind, and anticipated expenditures for which DOD has not actually obligated funds," Conahan said. He defined anticipated expenditures as "replacement of equipment destroyed in the war; the deactivation of Ready Reserve Fleet ships, and the restocking of maritime prepositioned ships. Some anticipated expenditures may never translate into obligations because DOD may choose not to make certain expenditures," he said.

GAO says the incremental funding requirements for FY-91 will be \$33-billion, not the \$43.8-billion OMB is expecting. The \$43.8-billion OMB is projecting is on top of the more than \$13-billion it said was expended in the first part of the war, which comes to more than \$56-billion. But OMB is also saying that other "unknowns" will likely bring total costs to over \$60-billion, with Budget Director Richard Darman recently stating the number could be as high as \$70-billion.

There are three reasons for the discrepancy between OMB and GAO on the FY-91 numbers (\$43.8-billion vs. \$33-billion). These involve money that GAO believes was expended in FY-90 and already paid for, but which OMB is "double counting" as part of FY-91 expenditures. "OMB's report includes FY-90 costs of \$3.3-billion, which have already been funded."

A second reason is that "OMB is using cost estimates rather than actual costs. Using DOD's obligations data as a measure of actual costs suggests such costs are considerably lower than OMB's reported costs." For example, DOD reported obligations for the first quarter of FY-91 of \$5.8-billion for the operation while OMB reported estimated costs of \$9.9-billion, a difference of \$4.1-billion. The difference is "in part higher than obligations because costs include the value of assistance-in-kind provided by our allies, which do not require DOD to obligate funds since they are received free," Conahan said. In the first quarter of FY-91, OMB reported assistance-in-kind of \$1-billion, about 25% of the disputed \$4.1-billion. Regarding the rest, "we have been attempting to correlate obligations and reported costs to better understand the balance of the disparity between the two; however, to date DOD has not provided us with a reconciliation."

The third reason that obligations are lower than costs is that "anticipated expenditures, which are included in OMB's reports, do not result in DOD's immediately obligating funds and may never result in the obligation of funds," Conahan said. For example, in its April 27 report, OMB reported procurement costs of \$6.9-billion for the first five months of FY-91. "This amount included \$1.2-billion to reflect the value of major equipment destroyed during the conflict. However, because equipment losses were limited and the Administration's current budget proposal included a substantial reduction in the armed forces over the next several years, it may be unnecessary to replace destroyed equipment," Conahan said.

GAO believes that the reporting of anticipated expenditures, including combat losses, "accounts for the substantial disparity between reported procurement costs and DOD's supplemental funding estimate. DOD originally estimated procurement needs of \$6.4-billion in FY-91, but it revised this figure down to \$2.9-billion following the war's rapid conclusion." But, DOD's revised estimate is "\$4-billion less than OMB's reported cost, which suggests that many of the reported costs are anticipated expenditures that may never result in the obligation of funds."

## HOUSE PANEL SAYS WAR REVEALED SHORTCOMINGS IN TACTICAL INTELLIGENCE SUPPORT

Operations Desert Shield and Desert Storm revealed significant shortcomings in U.S. tactical intelligence support and the subsequent need for better intelligence collection capabilities, according to the House Armed Services Committee's FY-92 defense authorization report. Accordingly, the committee authorized millions of dollars in its version of the FY-92 defense spending bill to obtain lighter and more rapidly deployable intelligence support systems with better communications.

The committee noted that during Operation Desert Shield/Desert Storm, the Services were competing for "limited transportation means." The first concern was to bring as much combat power into the theater as quickly as possible. "These forces, however, did not have, for the most part, exploitation systems that were easily transportable," the committee's report noted. "Moreover, to be effective, these forces must be supported by theater airborne intelligence collection assets" such as reconnaissance aircraft and requisite communications to provide direct support to the commander."

The committee said one of the clear "lessons learned" from Desert Shield and Desert Storm is that there is a significant requirement for a variety of wide area imagery intelligence, or IMINT. "It is clear that imagery support during Operation Desert Shield/Desert Storm struggled to meet these requirements," the committee's FY-92 report states. The committee approved the FY-92 bill on May 8.

To help resolve the IMINT problems, the committee is recommending the acceleration of the Follow-On Tactical Reconnaissance System (FOTRS), which includes the development of the reconnaissance variants of the F/A-18 and the F-16, the Advanced Tactical Air Reconnaissance System (ATARS), and the Joint Services Imagery Processing System (JSIPS). The committee is calling for \$20-million for the addition of a "reconnaissance strip" and Radar Beacon Forward Air Controller (RABFAC) capability to the radar upgrade of the F/A-18 fighter. Another \$9.2-million should be added for the integration of a similar reconnaissance strip mode and an electro-optical long-range oblique photography system into ATARS, the committee said.

Roughly \$20-million should be added to the F-16 program for the long-lead development and long-lead procurement of software, pod design and electronic control system specifications, the FY-92 report states. The addition of these funds is expected to help accelerate delivery of the first F-16 reconnaissance variant -- the RF-16 -- by one year as well as provide for risk reduction and schedule protection.

"As currently programmed the imagery taken by an RF-16-18 can only be down-linked to a receiver that is in the vicinity of the reconnaissance aircraft," the committee's report states. "Due to the operating characteristics of a manned penetrating reconnaissance aircraft, this often requires that data be temporarily stored on the aircraft until the aircraft returns to the vicinity of a receiver. This time delay reduces the tactical utility of the data." To improve this situation, the committee is calling for the addition of \$15-million to the ATARS program for the development of an airborne relay capability to allow imagery being taken by an F-16/18 or medium-range unmanned aerial vehicle to be transmitted immediately to a relay aircraft and then to any unit that is in the "footprint" of the relay aircraft, the House Armed Services Committee said.

The committee said it is concerned with JSIPS, which was instituted in 1986 as a joint effort with the Air Force as the lead Service. While the program was intended to consolidate separate imagery processing systems, "each Service, however, is buying a different set of capabilities that are tailored to its mission requirements, are packaged differently, and have no single design meeting the needs of joint operations." But the committee said the capabilities of these various systems can be combined without a major redesign and, given the advances in technology since the inception of the program, they can also be downsized.

To consolidate JSIPS, the committee is recommending the addition of \$25-million for the development of a common synthetic aperture radar processor and another \$4-million for the development and procurement of an interface for national sensors that can be integrated into existing processing equipment.

In its FY-92 report, the committee notes the intelligence support shortcomings are especially troubling due to the fact the U.S. had the "luxury of time -- from August until January -- to prepare for hostilities." In a future crisis, the committee said, this may not be the case. The Air Force conceded in a recent white paper that "tactical intelligence support was not always timely" during the Persian Gulf war and is an area where the Service needs to make improvements.

The committee also scolded the Administration for devoting so much of the intelligence community's time on the Soviet Union. "Prior to August 2, 1990, data bases on Iraq were less than complete," the committee wrote. "Operation Desert Storm/Desert Shield has taught us that we can no longer afford the luxury of concentrating so much of our intelligence resources on one possible adversary."

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## Senate Democrats Split on Fuel Economy, Suggesting Floor Fight, Sources Say

A group of Senate Democrats are pushing to bring an aggressive automobile fuel efficiency bill to the floor, an effort that threatens a bipartisan effort to attach new fuel standards to national energy strategy legislation, congressional sources say. The move by eight senators goes directly against the wishes of Sen. Bennett Johnston (D-LA), chairman of the Senate Energy & Natural Resources Committee and head of the Democratic energy task force, say congressional sources, who add that the move suggests a tough floor fight when fuel economy legislation goes to the Senate floor.

The move to push S.279, a bill offered by Sen. Richard Bryan (D-NV) requiring stringent new corporate average fuel economy (CAFE) standards, comes at a time when the Senate Energy Committee is marking up a bipartisan comprehensive energy policy bill, S.341, proposed by Johnston and Sen. Malcolm Wallop (R-WY). Provisions in that bill seek to improve energy efficiency in federal facilities, increase exploration and production of domestic oil, promote the use of alternative fuels in automobiles, and improve efficiency in passenger cars and trucks. A Senate source says Johnston wants fuel economy standards to be part of his energy bill, and feels that if S.279 is considered by the Senate before his bill, he could lose the support of pro-CAFE Democrats who have concerns with other sections of S.341.

The eight senators, all members of the Democratic Energy Task Force chaired by Johnston, express their desire to push S.279 in a recent letter to Senate Majority Leader George Mitchell (D-ME). They maintain S.279 is "the single most important step we can take to promote energy conservation" and urge Mitchell to "allow floor consideration at the earliest possible date." One Senate staffer indicates that the senators feel that it may not be in the best interest of Senate Democrats "to wait for Johnston's bill," explaining that "there are several provisions that some senators just can't live with -- allowing oil exploration in the Arctic National Wildlife Refuge (ANWR) for example -- that would guarantee a filibuster."

The Energy Committee markup May 14 of the fuel efficiency section of S.341 highlighted the differences among Democrats on the issue. Johnston offered an amendment calling for CAFE standards of 30.2-miles per gallon by 1996, 34-mpg by 2001, and 37-mpg by 2006, with wide Transportation Dept. discretion to adjust standards. Sen. Tim Wirth (D-CO) offered S.279, which calls for 34-mpg by 1996 and 40-mpg in 2001, as an amendment.

The split among Democrats does not bode well for passage of the Johnston/Wallop bill, according to industry and congressional sources. One industry source acknowledges that Senate Democrats who advocate a national energy strategy are in a tough situation. If CAFE advocates are unhappy with Johnston's fuel economy approach, they will oppose the energy bill, or try to amend the bill with S.279 again on the floor, which would guarantee a filibuster from CAFE opponents, this source reports. Another industry source sees the situation differently, arguing that supporters of S.279 are anxious to get the bill to the floor, because they see support of "such a stringent approach"

eroding. This source adds that S.279 may not be going to the floor because "Bryan doesn't have the votes" to avoid a filibuster. A congressional source notes that there is a "hold" on S.279, explaining that at least one senator has notified Mitchell of an intention to filibuster the bill if it comes to the floor in its current form.

## Reilly Says Hayes Wetlands Bill Marks Retreat on Bush's 'No Net Loss' Goal

Environmental Protection Agency Administrator William Reilly has expressed strong opposition to a wetlands bill introduced by Rep. James Hayes (D-LA) that would strip EPA of its veto power over wetlands permits and classify wetlands according to their value. While Reilly has said he favors classifying wetlands in order to determine which ones should receive priority protection, during a May 4 television interview he said the Hayes bill signals a retreat on the national commitment to a goal of "no net loss" of wetlands. The statement was his first public comment made about the bill.

Responding to a question about how the Hayes bill would affect the President's goal of "no net loss" of wetlands, Reilly pointed out that the agency has stepped up its enforcement against wetlands violations. He said that the tougher posture has stimulated "a backlash." Some of the backlash "is reasonably related to some confusions about defining and delineating wetlands," Reilly said, referring to a controversial federal wetlands manual used to identify wetlands. Developers and farmers have charged that the manual defines millions of acres of private property as wetlands, even though many should not be covered by federal regulations. EPA would fix that manual soon, he said.

But on the Hayes bill, which was crafted partly in response to the backlash over the federal manual, Reilly said, "I think it very undesirable. I think it sends a signal that the country is not going to maintain its commitment to no net loss of wetlands. It's not consistent with the President's commitment. And I strongly oppose it." An agency source says Reilly was not expressing an official Administration view, which has not yet been crafted.

A congressional source faults Reilly for focusing so much on the bill's provisions to remove EPA from the wetlands regulatory program. The aim of the provisions is to "streamline" the wetlands permitting process so that developers do not have to wait months or years to receive permits, the source says. The purpose is to place the program with one agency, not to strip EPA's powers per se, the source says. The source also points out that Reilly favors classifying wetlands by their function and value and says the administrator should spend more time discussing that aspect of the bill.

## Levine, Wolf Introduce Bill to Strengthen U.S. Authority Over Foreign Investment

Reps. Mel Levine (D-CA) and Frank Wolf (R-VA) introduced legislation last week that would increase Administration scrutiny and authority to block foreign investments by strengthening the so-called Exon-Florio provision of U.S. law. It would ask the interagency committee responsible for administering

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Exon-Florio to broaden its review of foreign investments beyond national security protection to include long-term U.S. economic security, Levine and Wolf announced at a May 13 press conference.

That concept is not now mentioned explicitly in the Exon-Florio provision of the Defense Production Act, according to a Levine-Wolf fact sheet released last week.

The two House members also released a report by the Defense Science Board, prepared a year ago but not formally endorsed by the Administration, warning against a loss of U.S. control over its defense industrial base. The report urged increased congressional oversight of the interagency process assessing foreign investment in U.S. firms, and recommended that the Defense Dept. encourage domestic buyers for a domestic company targeted by a foreign company with loans, purchase guarantees, and R&D grants. When domestic buyers can't be found, DOD should be allowed to impose performance standards on foreign buyers to ensure that critical technologies will remain available in the U.S., according to the report.

In areas where DOD wants to ensure access to critical technology that are controlled by a small number of foreign firms, it should actively encourage foreign investment in the U.S. for the purpose of bringing their technologies to the domestic market, according to the report. DOD should consider restricting access to its procurement if foreign firms are reluctant to invest in the U.S. or should seek authority from Congress to use the leverage of the commercial market to ensure they are bringing their technologies to the U.S., the report said.

The Levine-Wolf bill would also transfer control of the Committee on Foreign Investment in the U.S. (CFIUS) from the Treasury Dept. to the Commerce Dept. It seeks to increase foreign companies' reporting responsibilities to CFIUS to include all the information concerning a planned purchase that they provide to their home governments. It would also require CFIUS to report to Congress on each of its investigations, but that report would be confidential and would not include proprietary information, congressional sources said.

The bill's proponents argue that shifting CFIUS leadership to Commerce is necessary because having the Treasury in that role creates a conflict of interest given its activities in encouraging foreign investment in Treasury bills needed to finance the U.S. national debt and deficit. The bill, which is entitled the Foreign Investment and Economic Security Act of 1991, also would require CFIUS to investigate any case where foreign investors would gain 10% or more of a company, up from the current requirement to investigate investments of over 50% of the ownership. The new threshold is needed because often smaller purchases offer an window into technology and can be a wedge for future control, the sponsors said.

In addition, the bill would expand the criteria the President must consider in evaluating investment in critical U.S. firms. He would have to consider the concentration of foreign direct investment (FDI) in an industry and the impact of farther investment. Also, it would require him to consider the U.S. and global market position of the firms in question, whether the company received any government funds, and the effect on technologies defined as critical in reports by the Departments of Defense and Commerce. Levine will be circulating a dear

colleague letter next week urging support for the bill, a congressional source said.

## Congressional Insiders Report Aspin's Threats, Arm-Twisting Measures on B-2

Rep. Les Aspin (D-WI) put an enormous amount of pressure on members of the House Armed Services Committee, a panel he chairs, in order to secure an overwhelming majority vote two weeks ago to zero out procurement funds for the B-2 bomber, congressional insiders say. In the words of one Capitol Hill source, Aspin played "hard and fast politics, pushing every button he could" in order to produce the 45-6 vote culminating in a committee markup plan that denies an Administration request for \$2.46-billion in B-2 procurement funds and a defense authorization floor debate nearly absent of any B-2-related amendment. The absence of B-2 procurement funds led the President this week to threaten to veto the defense authorization bill.

"I've been on Capitol Hill for more than eight years," one source said and "I've seen a lot of hardball played during my time, but I've never seen it played as hard as this," a reference to Aspin's reported behind-the-scenes maneuvering to produce a strong anti-B-2 vote in the House chamber.

Another congressional source said the Wisconsin Democrat even resorted to the use of threats as a means of swinging votes on B-2. Aspin reportedly told some committee members that he would use his influence to deny them subcommittee seats and/or chairmanships if they did not support him in opposing the B-2.

"I don't know what he [Aspin] accomplished with all the arm-twisting," the source said. "Everybody on the Hill knows the story behind that vote. If the idea was to present a unified front in the House [to kill the B-2], I don't think it's going to have much impact down the road."

The House Rules Committee last week released a list of amendments expected to be offered on the House floor during debate this week on Aspin's bill. The list is conspicuously absent of any B-2 amendments. That absence virtually insures that authorization for additional B-2 procurement will not reach the floor of the House for a vote. In fact, the sole B-2-related amendment listed in the authorization bill has to do with congressional philosophical support for continued development of stealth technology.

A House Armed Services subcommittee two weeks ago delivered a 15-4 vote to zero out procurement funds for B-2, sources close to the panel said. "But that vote is not at all an accurate picture of how the subcommittee really feels about this issue," one source said. "Congressman Aspin's antics produced a totally lopsided result. Had he left the subcommittee members alone to vote their own consciences and convictions, he would still have gotten a recommendation to zero the B-2; but the vote would probably have been closer, a lot closer."

A close vote on B-2 was something that Aspin reportedly wanted to avoid, other congressional sources say. The congressman wanted to send a strong anti-B-2 message to the House Appropriations Committee, which begins its mark-up this week and is expected to follow the Armed Services panel

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lead and zero funding for the B-2 (see related story). He also wanted the Senate to perceive a tough anti-B-2 stance in the House.

"He's a realist," one source said. "Les knows that the B-2 issue will ultimately be decided in a conference committee. He wants to go into that session with strength on his side. . . . He wants to be in a position to exert some control."

Aspin's aides strongly deny that the congressman supports any other position than the one his committee produced two weeks ago. But other sources also close to the congressman say he is prepared to agree to a compromise on B-2 procurement once the issue goes to a conference committee.

Aspin's staff spent a portion of last week and this week "in damage control," according to one congressional source. "Les may have done himself more harm than good in exerting the kind of pressure he resorted to on B-2 this year. A lot of people are still smarting from the tactics he used."

Aspin's "tactics" were designed to help him secure a cap on B-2 numbers, congressional sources say. He reportedly wants this year to be the last year in which the B-2 is a congressional issue. "He's tired of the B-2," one source said. "He doesn't want to keep fighting the same battle over B-2 year after year."

Aspin would agree to a compromise worked out with the mostly pro-B-2 Senate which would allow a maximum number of planes to be built now and in the future, sources say. He would prefer that such a cap hold the USAF B-2 force to a total of about 35 planes, the sources say. But that may be a tough goal for Aspin to achieve; the Air Force seeks a total force of 75 B-2s and a classified Rand Corp. study says no less than 60 would be adequate to serve the nation's needs. (Congress has already authorized funding for a B-2 fleet numbering 15. Two of the bombers are now in the USAF inventory.)

## House Panel Echoes DOD, GAO Concerns And Slows C-17 Air Transport Program

The House Armed Services Committee voted May 8 to

slow the Air Force's \$35-billion C-17 transport aircraft program, expressing many of the same concerns about the program's rising costs and the schedule delays as have the Office of Secretary of Defense (OSD) and the General Accounting Office (GAO). The committee approved the Administration's request for six aircraft in FY-92, but is requiring the Air Force to provide more accurate cost and production estimates before the money is released. In addition, the committee slashed the FY-93 procurement from 12 to six aircraft because testing is behind schedule.

In its markup of the FY-92 defense authorization bill, the committee recommended \$1.775-billion for six aircraft in FY-92, and \$122-million for advance procurement of six aircraft in FY-93. The full House and the Senate must also approve this measure.

The committee essentially endorsed studies recently completed by OSD and GAO analysts. In March, following a three-month review of the program, acting Defense Under Secretary (acquisition) Donald Yockey approved release of FY-90 and FY-91 procurement funding to C-17 contractor McDonnell Douglas. But Yockey recommended no new funding for McDonnell Douglas, which OSD analysts said was between \$800-million and \$2.6-billion over ceiling on its \$6.6-billion full-scale development contract.

Although Yockey's OSD team uncovered numerous problems, he essentially adopted a "wait-and-see" approach, according to sources. He intends to monitor McDonnell Douglas's progress over the next year before making further recommendations.

The GAO also expressed reservations about the C-17 program in a briefing given to members of the House Armed Services Committee last month. The GAO warned that current Air Force plans called for authorization of 28 aircraft -- nearly 25% of the total program -- before completion of testing in August 1993. The committee subsequently reduced the requested FY-93 buy to six aircraft to reduce the concurrent production and testing of such a large number of aircraft.

## CONGRESS CALLS FOR 3RD INVESTIGATION OF CONTROVERSIAL KOREAN FIGHTER DEAL

Lawmakers have asked the General Accounting Office (GAO) to investigate the Korean fighter program for a third time amid continuing congressional concerns over how that proposed deal to jointly produce 120 F-16 fighters may harm the U.S. industrial base. The investigation request follows closely the findings of a classified GAO study of the deal given to lawmakers in March.

Five senators, led by Alan Dixon (D-IL), and two key House leaders -- Majority Leader Richard Gephardt (D-MO) and Government Operations Committee Chairman John Conyers (D-MI) -- requested the latest investigation after having concerns about the most recent GAO findings about the deal. Specifically, sources familiar with the classified findings say, the primary area of concern is on the amount of technology that is expected to be transferred to Korea; the affect of the deal on the U.S. industrial base; the offset requirements permitted in the deal; and the production share that is likely to go to some European countries.

While no memorandum of understanding (MOU) has yet been negotiated between the two countries to close the deal, a draft MOU exists that was based on a previous agreement negotiated when Korea was set to buy McDonnell Douglas-built F/A-18s. Korea later abruptly switched its decision, opting instead for

General Dynamics' F-16, claiming that cost considerations swayed them to reconsider. Lawmakers requesting the investigation fear the switch was also driven by greater technology transfers and more offsets than were offered by McDonnell Douglas.

GAO had found that the MOU reached between the governments to close the F/A-18 sale had language that could have permitted more liberal production share and technology transfer benefits than the initial agreement reached between the Korean contractor and McDonnell Douglas, one congressional source said. "The GAO [in its most recent investigation] . . . found that the commercial agreements between the U.S. prime contractors and third-party transfers was far stronger than the MOU between the U.S. and Korean governments," said Dixon and four other senators in a May 7 letter to GAO chief Charles Bowsher.

Lawmakers worry that some provisions of the MOU for the then-expected F/A-18 sale cannot be renegotiated for the F-16 sale and sources say that Korea is strongly resisting U.S. attempts to change the terms of the MOU originally negotiated for the F/A-18 sale. A team of U.S. negotiators is going to Korea next week to begin negotiations on a new MOU for the F-16 sale.

Congressional and Administration sources say they are expecting the same purchasing agreement between the Koreans and General Dynamics as was agreed upon before with McDonnell Douglas: 12 planes would be bought by Korea "off the shelf," 36 planes are to be assembled in Korea with U.S.-made kits, and 72 planes are to be built completely in Korea from Korean-made parts. However, congressional sources say they are concerned by reports that Korea is insisting on a larger production share.

Another key question is the amount of third country production share. Under a pact negotiated by the Air Force in the late 1970s, four European countries are entitled to 15% of the production share of every foreign F-16 sale. But what appears to be in question is whether the European countries -- Norway, Belgium, Denmark and the Netherlands -- get a production share of all 120 planes in the deal, as some lawmakers would like, or just those planes not completely made in Korea, which Korea argues is the case.

Also under congressional scrutiny is the question of offsets offered to Korea by General Dynamics. There is concern that a loophole in the MOU negotiated for the cancelled F/A-18 purchase agreement would have permitted Korean companies to bid on repair work for the Navy's F/A-18s, despite assertions from the government that the MOU contained no "directed buy-back" provisions.

There are also concerns that the Commerce Dept. has not yet undertaken a study of the effect of the Korean fighter program on the U.S. industrial base. In the wake of the stormy debate over similar concerns raised by the U.S.-Japan FSX fighter program, the Congress required the Administration in the 1989 defense authorization package to involve Commerce Dept. officials in the policy making and MOU negotiations surrounding similar defense programs.

Sources said that Congress had been given assurances by Commerce officials that an industrial base study was undertaken in preparation for the Korean deal, but no study has yet been delivered to either Congress or GAO. "When we asked for it, it wasn't there," one informed source said. "There is a purpose theoretically for having Commerce involved." One Administration official this week said Commerce and DOD were currently completing such a study on "all of the impact assessments."

## **DINGELL SAYS OMB SEEKS TO UNDERCUT HILL INTENT ON GROUNDWATER CONTAMINATION**

House Energy & Commerce Committee Chairman John Dingell (D-MI) and other members last week expressed great concern that the Office of Management & Budget is seeking to undercut congressional intent to prevent groundwater contamination and faulted the Environmental Protection Agency for not acting aggressively enough to oppose OMB. The hearings mark the first public airing of a significant policy issue that the agency is grappling with and which agency sources say EPA will certainly need to resolve before long, possibly through broad public forums, because so many agency rules are impacted by the issue.

The issue arose at a May 8 hearing which was directed mainly at EPA's failure to prevent pesticides from leaching into groundwater but which quickly broadened to encompass a fundamental dispute the agency is having with OMB over groundwater policy. Agency sources recently described a major disagreement EPA and OMB are having over whether to protect groundwater resources that are not currently being used as drinking water supplies, a disagreement that threatens to stall numerous EPA regulations that affect groundwater. While EPA believes groundwater pollution must be prevented, even for sources not currently being used, OMB has raised fundamental concerns that it costs too much to provide such protection, especially because costly protection provides few health benefits in terms of cancers prevented.

But House members strongly opposed OMB's position, and cautioned EPA to defend a groundwater contamination prevention policy against OMB's pressures for a policy that would rely on cleaning up

already contaminated water.

"I'm concerned that EPA and OMB are essentially turning on its head what Congress intended as the central strategy against groundwater contamination. What Congress intended, particularly through RCRA [Resource Conservation & Recovery Act], is a strategy of prevention," said committee member Ron Wyden (D-OR). Wyden objected to language in a new EPA groundwater strategy, released the day of the hearing along with other stalled rules affecting groundwater. He said that wording in the strategy -- stating that EPA will "consider the use, value, and vulnerability of the [groundwater] resource, as well as social and economic values" -- was "gobbledygook" that did not "sound like what Congress intended."

EPA Deputy Administrator Henry Habicht noted that the agency recognizes it must "develop an understanding of the benefits and risks to groundwater" that encompasses more than OMB's narrow concern with the number of cancer cases prevented by a groundwater regulation. But he also said that there are substantial "economic and welfare impacts" that must be evaluated in assessing rules that affect groundwater. He also said that "we all need to come to a better view of the impacts of contamination of groundwater on future generations," touching upon the central dilemma EPA is facing as it tries to resolve its policy dispute with OMB.

Wyden charged that OMB officials are undermining the health and environmental protection mandate of RCRA by substituting cost/benefit decisionmaking that Congress never intended, and insisted that impacts on future generations must be considered when rules are developed that will protect groundwater.

Habicht acknowledged that OMB differs from EPA on prevention of groundwater policy, but remarked that OMB is "not closed minded about it," noting in particular that the agency is thrashing out differences over a RCRA corrective action rule proposed last year that will have major groundwater protection elements. Strict cost/benefit should not be the final deciding factor in groundwater rules, but "clearly society had not said that no price is too high to pay for groundwater cleanup," he added.

Wyden questioned Habicht on an April 8 briefing at which EPA Administrator William Reilly was informed that OMB was having significant problems with EPA's rule for garbage landfills, which contains strong provisions to protect groundwater. He asked Habicht if Reilly decided to firmly resist OMB's opposition to the rule. Although assuring the committee that EPA would oppose OMB if it insisted on a rule that would clean up groundwater rather than prevent its contamination, Habicht nonetheless said it was unclear what OMB's "bottom line" was on the rule. Both Wyden and Dingell said it was "not good administration" for the agency to not know OMB's "bottom line" even after its landfill rule had been at OMB for more than seven months.

"This is one of the most concerted attacks on groundwater policy in a long time that's been initiated by OMB and I don't think EPA is standing up for what was the intent of Congress in going after the implementation of this law," Wyden said.

## OMB PRESSING EPA FOR MORE INDUSTRY FLEXIBILITY IN TOXIC CHEMICAL DRAFT RULES

The Environmental Protection Agency, in a very recent draft of its rule to promote voluntary early reductions of toxic chemicals under the Clean Air Act, has further expanded the flexibility it would allow for facility-wide pooling of emission cuts. But it is facing intensive pressure from the Office of Management & Budget to go further, according to sources.

EPA Assistant Administrator (air & radiation) William Rosenberg has said the rule could be one of the most important the agency issues under the new law because it promotes voluntary pollution prevention. It has been bogged down since the end of March when industry, environmentalists, and state experts could not agree upon a draft.

Under the new law, if a facility commits to reducing sources of toxic emissions 90% before EPA proposes maximum achievable control technology standards for the sources, then those sources would be exempt from the standards for six years. The agency is trying to craft a final proposed rule that will provide industry as much flexibility for facility-wide pooling as possible, hoping to attract industry participation in the voluntary program. A May 10 draft provides more flexibility than previous drafts. But it would still require that pooling achieve up to 40% reductions facility-wide for the plant to receive the six-year deadline extension, a restriction OMB reportedly wants eliminated.

"The basic goal is to allow as much flexibility as the law allows," says an agency source, noting that the key issue until recently centered on what is permitted by the new act. Environmentalists and state regulators believe the law requires that the definition of a "source" be strictly limited to individual units at a facility or geographically and functionally related units for pooling. Only those narrowly defined "sources" would be eligible for a six-year deadline extension if a facility agreed to reduce the sources' emissions before a MACT standard is proposed for the particular emission point. But industry and EPA

sources believe the law's basic goal is to strongly encourage maximum early reductions, and have argued for more flexibility as a means to achieve that goal. EPA's Office of General Counsel recently concluded that the Air Office has more flexibility under the law to allow for facility-wide pooling than it had previously believed, opening the door for the proposed rule to allow for even more facility-wide pooling than in earlier drafts of the rule.

The May 10 draft, which an EPA source says may not be the final version, offers a "multi-part definition of source" for the early reductions program. Source is defined as: (a) a building, structure, facility, or installation identified as a source in Appendix B; (b) the entire contiguous facility; (c) any unit consisting of one or more emission points that can be characterized as a building, structure, facility, or installation; (d) any combination of sources defined in (c), provided that reduction from the aggregation of sources constitutes significant reductions of hazardous air pollutant emissions of the entire contiguous facility under common ownership or control; and (e) any individual emission point or combination of points, provided that reductions from such point or points constitutes a significant reduction of hazardous air pollutant emissions of the entire contiguous facility.

The draft explains that a "significant" reduction under the (d) and (e) definitions means that cuts must be made from a baseline of not less than a total of 10 tons/year for facilities emitting more than 25 tons/year or five tons/year for facilities with less than 25 tons/year of emissions. EPA and sources closely following the rule say that OMB has called for even more flexibility, arguing that EPA should not require a "floor" of 10 and five ton reductions for a facility to be eligible for the program. Industry has also argued for a flexibility program without a "floor."

## **SENATE PANEL SAID TO LEVERAGE BXA NOMINATION FOR PASSAGE OF EXPORT ACT**

The Senate Banking Committee has sent word informally to the Bush Administration that it will not approve any nominee to replace departed Bureau of Export Administration (BXA) Under Secretary Dennis Kloske until the nominee has a charter under which to operate, according to Administration, congressional and industry sources. Democrats on the committee reportedly believe that the Administration could do more to aid the passage of a House bill reauthorizing the Export Administration Act (EAA).

The House bill is a companion measure to S.320 passed by the Senate earlier this year.

While the Administration has yet to formally nominate a candidate to the vacant BXA post, a variety of government and non-government sources indicate that Commerce Secretary Robert Mosbacher's preferred choice is current Assistant Secretary (import administration) Eric Garfinkel.

The EAA, under whose authority most dual-use export controls are administered, lapsed last October. A bill that would have reauthorized the act for an additional 18 months subsequently was vetoed in November by President Bush, who has retained authority to control exports under the International Economic Emergency Powers Act (IEEPA). This year, during discussion leading up to the passage of S.320, the Administration made commitments to members of the Senate Banking Committee that it would not veto a final measure emerging from the conference committee if it resembles S.320.

But the likely sponsor of companion House legislation, Rep. Sam Gejdenson (D-CT), has yet to introduce the measure. He is said by industry sources to be wary of pressing for the bill, which liberalizes some East-West export restrictions but tightens sanctions on chemical & biological and missile-tech-related exports, because of the lack of assurances that the Rules Committee will facilitate the measure's passage by limiting the number of amendments that could be offered on the floor. Industry sources say that without the benefit of a tightly drawn rule for floor consideration, the bill could be subject to amendments that would tighten rather than lift controls and strengthen the roles of the State or Defense departments over the Commerce Dept. in commodity jurisdiction or license review in light of the political climate generated by the Persian Gulf War.

## **FAST TRACK CLEARS COMMITTEE HURDLES; FLOOR VOTE EXPECTED THIS WEEK**

The Bush Administration last week overcame a major hurdle toward obtaining two years' additional negotiating authority for trade agreements under expedited procedures when the House Ways & Means Committee and the Senate Finance Committee by large margins backed the extension of that authority.

By votes of 27-9 and 15-3, the House Ways & Means Committee and the Senate Finance Committee on May 14 recommended that the full House and Senate this week back the fast track negotiating authority sought by President Bush and reject a resolution that would deny that authority. The other committee of jurisdiction, the House Rules Committee, reported the same provision out the same day without a recommendation. Ways & Means also favorably recommended by voice vote a resolution offered by House Majority Leader Richard Gephardt (D-MO) and panel Chairman Dan Rostenkowski (D-IL).

Congressional sources say that the Rules Committee will meet on May 21 to consider the rule it will

issue governing debate on the floor for the disapproval resolution introduced by Rep. Byron Dorgan (D-ND) and the Gephardt-Rostenkowski resolution. The latter "memorializes" Administration pledges made to Gephardt, Rostenkowski and Senate Finance Chairman Lloyd Bentsen (D-TX) that it will take into account congressional concerns in the areas of environment and labor standards and worker displacement assistance.

Rep. Sam Gibbons (D-FL) said that there would be two hours of debate on the Dorgan resolution, followed by one hour of debate on the Gephardt-Rostenkowski measure should Dorgan be defeated.

At the May 14 Ways & Means markup, several members of the committee lamented the exclusion of the topic of drugs from the list of negotiating objectives outlined in the Gephardt-Rostenkowski resolution, citing it as a top national priority worthy of inclusion in any bilateral talks. After the markup, Rostenkowski acknowledged that drugs had been left off the list in deference to opposition to its inclusion by the Mexican government.

Several others chastised President Bush for statements on the weekend that reportedly inferred racial prejudice to opponents of fast track for the trade talks with Mexico.

Reps. Donald Pease (D-OH), Jim Moody (D-WI) and Sander Levin (D-MI) indicated that they would have preferred to have a vote that would have allowed them to remove fast track for talks with Mexico and Canada while leaving in place the expedited consideration of any accords negotiated in the Uruguay Round of multilateral trade talks in Geneva. Levin voted against the Dorgan resolution, while Pease and Moody joined Dorgan, Pete Stark (D-CA), Charles Rangel (D-NY), Andrew Jacobs (D-IN), Ed Jenkins (D-GA), Marty Russo (D-IL) and Richard Schulze (R-PA) in supporting the measure. Schulze indicated that his opposition stems from mistrust of the European Community in the Uruguay Round rather than negative feelings toward trade talks with Mexico.

Dorgan, Pease and Levin blasted the Administration for pursuing a trade policy that put free-trade ideology ahead of the interests of U.S. producers. "Free trade, if it's not fair, is not worth a damn to anybody," Dorgan said. Pease charged that the Administration's hierarchy of allegiances is topped by free-trade ideology, followed by long-term U.S. interests, diplomatic commitments to help the Mexican government and, lastly, "concern for the farmers of North Dakota or the industrial workers of northern Ohio."

Rostenkowski expressed surprise that the House Rules Committee sent the Dorgan resolution to the floor for a vote without a recommendation. He said he had been "under the impression" that the Rules Committee would report it out unfavorably. He said he is also "under the impression" that the House Democratic Leadership will not allow a separate vote on removing fast track procedures only for trade talks with Mexico and Canada.

Rostenkowski called the NAFTA "the first step in a hemispheric trading partnership" that the U.S. should negotiate "for our own protection."

## **MITCHELL HINTS AT PERSONAL OPPOSITION TO FAST-TRACK FOR MEXICO TRADE PACT**

Senate Majority Leader George Mitchell (D-ME) last week strongly hinted that he opposes an extension of fast-track authority for a free-trade agreement with Mexico even though he voted in the Senate Finance Committee against a resolution that would deny that authority to the Administration altogether. Mitchell told the committee on May 14 that it has not yet been satisfactorily explained to him why Congress cannot consider a proposed trade pact with Mexico under normal congressional procedures.

Mitchell warned that his vote in committee against a resolution sponsored by Sen. Ernest Hollings (D-SC) denying an extension of fast-track authority for multilateral and bilateral agreements is not an indication of how he will vote once the measure comes to the floor, when proposals to amend the process for considering a free-trade agreement with Mexico arise, or when approval of the final agreement is sought. But he pointed out that fast-track was originally created to accommodate multilateral, not bilateral negotiations. He also emphasized that the Congress has a responsibility to protect the environment and U.S. workers in a free-trade agreement with Mexico.

The Bush Administration's May 1 response to congressional concerns gives negotiators "almost total latitude" on these issues, according to Mitchell. "Either now or in the future, Congress may want to reserve a greater role in this process," Mitchell told the committee. He explained his vote against the Hollings resolution as a way of accommodating the chairman and of allowing the issue to be aired on the Senate floor.

But there were indications last week that Mitchell will not pressure other Democratic Senators to vote

with him on the issue of fast-track for a North America Free-Trade Agreement (NAFTA), according to an informed congressional source. Mitchell told the Senate Finance Committee he wanted to permit a full debate of the fast-track issue by all Senators and to permit Sen. Don Riegle (D-MI) to present and debate his proposal. But the Senate Majority Leader apparently had not decided at press time whether he would bring up for a vote next week a Riegle resolution that would allow amendments to a NAFTA in five limited areas during next week's floor debate on the Hollings resolution. Mitchell may choose to bring the issue up after the recess or may choose to let the resolution pend until a later time in the negotiations as a way to keep the Administration in line, congressional sources speculated.

Riegle last week formally began to solicit cosponsors for his resolution, S. Res. 109, with a dear colleague letter dated May 10 pointing out that the Administration's action plan does not offer "specific and concrete solutions" to address the environmental protection and labor issues raised by an agreement with Mexico. He had held off on doing so before because he did not want to split the opposition against fast-track, giving Hollings a chance to rally both the opponents of the Uruguay Round and the Mexican free-trade agreement, congressional sources said. The Riegle resolution as introduced last month would allow amendments in the areas of fair labor standards; environmental standards; the rule of origin; dispute settlement; and adjustment assistance for displaced U.S. workers. Riegle said in his May 10 letter that he plans to circulate additional dear colleague letters illustrating in detail why it is necessary to reserve the congressional right to offer amendments in each of the five areas.

Riegle told reporters after the May 14 committee markup that his resolution, which has the status of regular legislation, is "not necessarily" affected by the June 1 deadline by which Congress has to deny fast-track. The change of rules as proposed in the resolution can be decided at any time, he said. It remains unclear if Riegle wants to bring the resolution up on the Senate floor without having the committee consider it, but so far he has not sought committee action, according to congressional sources. To bring the bill directly to the floor, Riegle could use several procedural steps that would allow it to be placed on the calendar. But several congressional sources said it would be difficult to do without the necessary 60 votes to halt a threatened filibuster. Sen. Lloyd Bentsen (D-TX) said on May 14 that he "strongly opposed" the resolution and congressional sources said that the staff of other Senate Finance Committee members last week raised several substantive objections to it.

During a May 13 committee meeting, staff insisted that the Riegle resolution effectively is a repeal of fast-track, according to informed sources. They pointed out that amendments in five limited areas would open the door to sector-specific changes that Riegle says he wants to avoid. As an example, staff members pointed out that the area of environmental standards could invite amendments that would stipulate that the negotiated tariff concessions for a specific product would be suspended unless Mexico implemented certain environmental rules, sources said. In addition, several staff members pointed out that amendments in the rules of origin area would inevitably be sector-specific, these sources said.

The Senate Finance Committee rejected the Hollings resolution, S.Res. 78, by a vote of 15 to 3, with Sens. Tom Daschle (D-SD), Daniel Patrick Moynihan (D-NY) and Donald Riegle (D-MI) voting for it. The same day, nine members of the House Ways & Means Committee voted for a similar resolution of disapproval.

## **TREASURY URGES HILL TO MAINTAIN CHINA MFN STATUS . . . begins on page one**

cooperate with the rest of the world in restricting the proliferation of chemical, biological and nuclear weapons technologies, according to sources. And it is seen as perhaps the only way the President can "buy more time" on the China issue while the Administration seeks to impress on China the growing opposition on Capitol Hill to maintaining the status quo while the alleged abuses continue.

The MFN request is also going to be debated against the backdrop of allegations by Treasury that China may have been fixing its currency exchange rate to bolster exports. These allegations, according to Joint Economic Committee Chairman Paul Sarbanes (D-MD), could cast a serious pall over the entire MFN issue. "We're headed for a major issue on MFN," Sarbanes said last week. "The President wants it despite human rights [abuses]. We're going to have to deal with what's being done there."

Some White House sources expressed fears that Congress would ultimately deny MFN for China, throwing ever straining relations between the U.S. and China into complete disarray. These sources sharply criticized Treasury for its report on alleged currency fixing, saying it is the "wrong time" for Treasury to level such charges because the President is pressing for renewal of MFN. An Administration source countered by noting that no such allegations were made -- saying that Treasury highlighted the issue as a

possible irregularity -- and added that, in any case, Treasury is required by law to make its findings known to Congress.

Withdrawal of the MFN during the currency fixing negotiations would be a "highly offensive action" to the Chinese, according to Treasury Under Secretary (international affairs) David Mulford. "Withdrawing the MFN, the President would believe, is not the way to go when you negotiate," Mulford told the Senate Banking Committee international finance & monetary policy subcommittee on May 16. It would create "an atmosphere where we've taken a highly offensive action" and may not enable the U.S. to successfully complete the currency fixing negotiations, Mulford said. (For a rundown on Treasury's allegations, see related story.)

At issue is the fact that China has tripled its exports to the U.S. since 1988. In its annual report on international economic & exchange rate policy, Treasury notes that Chinese exports to the U.S. rose in 1990 by 27%, which followed a 41% expansion in 1989. "These growth rates are significantly above those for China's global exports during the same period." At the same time, imports to China from the U.S. contracted 16% in 1990, after rising by the same rate in 1989, "due to China's desire to limit overall imports," the report states.

While quick to point out that there is no concrete evidence "at this time of direct manipulation of the exchange rate itself within the meaning of the law... recent devaluations, in conjunction with large external surpluses, raise concerns and indicate that a shift in exchange rate policy may be occurring aimed at reinforcing China's attempt to generate sizable external surpluses," the report states. "Such a possibility is a matter of concern to the U.S. government," according to the report.

Mulford said the U.S. planned to soon initiate negotiations with China on the currency issue, noting that negotiations on the issue have been successful with Taiwan and Korea in the past when they tried to manipulate their currencies to improve their balance of trade with the U.S. "We have had success with Korea and Taiwan," Mulford said. In the case of China, imports to the U.S. have arisen in the past couple of years, but from 1985 to 1989 "we have watched [and there has been] no clear pattern of exchange rates" abuses, Mulford said. Why the balance of trade has turned so much in China's favor in the last three years is not certain, Mulford said. "We don't know why. It is time to engage in negotiations on what is going on and why," he said.

Democrats in Congress oppose extending MFN while there are allegations of serious human rights abuses and unfair trade practices. In an effort to forge a compromise that would allow MFN to be extended while addressing congressional concerns, Senate Majority Leader George Mitchell (D-ME) introduced legislation that would require the President to terminate MFN for China in six months after it is renewed unless the Chinese government has taken steps to: improve on its human rights record (by eliminating slave labor, releasing all political prisoners, stopping interference with Voice of America broadcasts in China and Tibet, and permitting unrestricted travel and immigration); improve trade relations with the U.S. (by protecting patents, copyrights and other intellectual property rights); end exports of weapons (by participating in international efforts to control the proliferation of military weapons, chemical, biological and nuclear technologies).

While not backing the Mitchell bill, the White House last week said it would accept conditions on MFN. White House Spokesman Marlin Fitzwater said that the informal discussions inside the White House on the issue have determined there are "possibilities, such as adding conditions or at least expressing our views about human rights progress in China and other matters." Fitzwater, briefing reporters on May 16, the day Mitchell introduced his legislation, said "the final decision will include that kind of discussion, as well as decisions on whether there would be any conditionality." The President, later that day, told reporters at the White House after returning from Capitol Hill to discuss the issue with Republican leaders, "I stand by Marlin" on the issue. "Marlin put it right."

Accepting conditions may be the only way the President can get MFN renewed, these sources say. But China has already indicated it would not accept conditional MFN renewal, with Chinese Ambassador to the U.S. Zhu Qizhen saying May 7 that "putting pressure on China is not a way to handle state-to-state relations between our two big nations" (*Inside the White House May 16, p15*).

The President's request to renew MFN status for China -- and subsequent indications the White House would accept conditions, an unprecedented move for Bush -- came amid allegations last week by the powerful chairman of the Senate Banking Committee that the special access to the U.S. market was the result of a payback to China for not opposing in the United Nations U.S. efforts to force Iraq out of Kuwait. This allegation was denied by the White House, but it portends the serious and potentially contentious debate on Capitol Hill over the issue, which the President has indicated is a top trade and foreign policy priority. And, because he was the U.S. Ambassador to China, Bush is said to consider maintenance of U.S.-Chinese relations to be a matter of "personal integrity," as one Administration source

put it.

Meanwhile, Senate Banking Committee Chairman Donald Riegle (D-MI) charged that Bush cut a deal with the Chinese -- promising renewed MFN status for support on the war resolutions in the U.N., which the White House has denied. "The Chinese abstained on their vote on the war resolution," Riegle said. "There was a question leading up to it on how they would vote, whether they would execute their veto right. Was there implied understanding we might be more accommodating on the trade issue," Riegle asked. He said he feared that such a policy by the U.S., -- whether it was carried out or not -- "could start to reflect a pattern where in effect we make economic concessions favorable to these countries" in exchange for support on touchy foreign policy issues. Riegle called this "very disturbing." "It is wrong to have an appearance, let alone the fact."

### **Major Issue as Hill debates favored nation status**

## **U.S. SAYS CHINA MAY BE MANIPULATING CURRENCY TO GAIN FAVORABLE TRADE BALANCE**

The Treasury Dept. last week alleged that China may be manipulating its currency exchange rate to gain a favorable trade balance with the U.S., a move that has thrown into turmoil the issue of whether Congress will okay President Bush's request to renew China's Most Favored Nation trade status. The allegations by Treasury have come at a time when lawmakers are considering denying MFN renewal -- or okaying only a partial renewal -- based on allegations that China routinely abuses human rights, does not protect U.S. intellectual property and is allowing the proliferation of chemical and nuclear arms weapons and technologies to volatile regions of the world.

The issue has caused a slight rift between Treasury and the White House, with White House sources saying Treasury's report "doesn't help matters any" and could have been the catalyst that caused the President last week to say he may accept a conditional MFN renewal. But Treasury was quick to defer to the White House on the ultimate decision on MFN, stating only that it recommended Congress continue MFN while the U.S. seeks to enter into negotiations with China over whether it did, indeed, manipulate its currency and, if so, whether this led to a three-fold increase in Chinese exports to the U.S. in the last three years.

The Treasury report, which is required by law, also comes at a time when lawmakers are questioning whether the President cut a deal with China on trade in exchange for support on United Nations' resolutions that gave the President the authority to attack Iraq to drive it out of Kuwait. One lawmaker noted last week that the President met at the White House with the Chinese Foreign Minister "just before and after the U.N. vote," suggesting that China had been offered trade concessions in exchange for not carrying through on its threat to exercise its veto power over the U.N. resolution authorizing the use of force, a charge the White House denies.

Treasury says "the principal cause of China's bilateral trade surplus . . . appears to be generalized and pervasive administrative controls over external trade, which inhibit imports, including from the United States, and promote exports, particularly to the United States, China's largest export market." But Treasury is quick to point out that "there is no clear evidence at this time of direct manipulation of the exchange rate itself within the meaning of the law. However, the recent devaluations, in conjunction with large external surpluses, raise concerns and indicate that a shift in exchange rate policy may be occurring aimed at reinforcing China's attempts to generate sizable external surpluses."

China's command economy "has allowed it to control the allocation of foreign exchange. This has been clearly done in a manner that impedes imports. There is, thus, a need to monitor this situation closely. Certainly, given the substantial real effective depreciation of the official rate of the yuan to date and China's reluctance to eliminate export subsidizes and liberalize imports, no case can be made for further real effective depreciation" of its currency, the report states.

Treasury Under Secretary (international affairs) David Mulford told a congressional panel last week that the "balance of payments and foreign exchange developments in China are a growing concern." He noted that China has increased its trade imbalance with the U.S. threefold in three years, to \$10.4-billion in 1990, from just over \$3-billion in 1988. In 1985 the U.S. and China were in balance.

China's balance of trade with the U.S. continues to grow, according to the Treasury report. In the first two months of 1991, the overall trade surplus China had with the U.S. was \$2.26-billion "an increase of 183% compared to the same period of last year. Exports were up 24% while imports grew only by 12%." China is claiming that it has a trade surplus with the U.S. of \$180-million for the first two months of the year, while U.S. data reveal a \$1.7-billion surplus, a "30% increase over last year. This was our second largest trade deficit, behind that with Japan."

THE WHITE HOUSE

Office of the Press Secretary  
(Colorado Springs, Colorado)

For Immediate Release

May 29, 1991

TEXT OF A LETTER FROM THE PRESIDENT  
TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES  
AND THE PRESIDENT OF THE SENATE

May 29, 1991

Dear Mr. Speaker: (Dear Mr. President:)

I hereby transmit a document referred to in subsection 402(d)(1) of the Trade Act of 1974, as amended, 19 U.S.C. 2432(d)(1) ("the Act"), with respect to the continuation of a waiver of application of subsections (a) and (b) of section 402 of the Act to the People's Republic of China. The document includes my reasons for determining that the continuation of the waiver currently in effect for the People's Republic of China will substantially promote the objectives of section 402, and my determination to that effect.

Documents concerning the extension of the authority to waive subsections (a) and (b) of section 402 of the Act, including a determination with respect to other countries and the reasons therefor, are transmitted separately.

Sincerely,

/s/ GEORGE BUSH

\* \* \*

*White House*  
*12th SW*  
*13th WAM*  
*Sayle/WAM*

*WAM / State-USTR*  
*DOD, CIA - push/pull*  
*NSA*  
*12th SFRC*  
*H-FAC - 13th*

## ISSUES OF CONCERN--THIS YEAR AND LAST YEAR

- o Last year, the primary issue of concern was the lack of adequate progress on human rights. Attention was focused on the continued detention of Tiananmen protesters, reports of abuses in Tibet, increased control over the media (including the jamming of VOA), heightened ideological rhetoric, harassment of Chinese students and political activists both in China and the U.S., and new controls on student travel abroad. Helms tried to make an issue of prison labor exports but it did not catch on.
- o This year other issues, in addition to human rights, have also taken on a higher profile. Public and classified reports of missile and nuclear transfers inconsistent with international guidelines have made proliferation a priority concern. To many, China is seen as a "rogue elephant" on missile/nuclear technology sales. Trade issues have become more prominent as a result of our \$10 billion trade deficit and China's designation under Special 301 as a serious intellectual property rights (IPR) violator. Prison labor exports have received considerable attention as a result of the Asia Watch report and claims by Rep. Wolf that he visited a prison export factory. Wolf and Smith's visit to China also raised the profile of the reported detention of some 70-80 Christian clergy. The treatment of Tibetans is of continuing concern and was highlighted in press coverage of the Dalai Lama's meeting with the President. China's aid to the Khmer Rouge was raised as well.
- o Status of Issues Our policy of engagement and limited sanctions has played a role in producing important developments in almost all areas of concern, although many fundamental problems remain.

Human rights. The situation remains of deep concern. Freedom of expression, press, and association are still tightly constrained. We still lack a detailed accounting of those arrested. Due process is clearly lacking. A number of Christian clergy remain in prison. But in some respects the situation is better than last year. The Chinese claim they have released most of those arrested after Tiananmen demonstrations. Recent sentencing of political detainees was light by Chinese standards (i.e., 2-4 years). Fang Lizhi was allowed to leave. Harassment of Chinese students in the U.S. appears to have ceased. Large numbers of Chinese students continue to receive permission to study in the U.S. In the Schifter visit, China for the first time acknowledged human rights as a subject for dialogue; the French and Australians now have similar dialogues.

Tibet. The government maintains tight political controls and continues to detain hundreds of individuals for nonviolent political expression. Both diplomats and

foreign journalists, however, are permitted to travel to Tibet and even to tour the main prison in Lhasa.

Prison Labor Exports During U/S Kimmitt's visit, the Chinese reaffirmed their policy of prohibiting prison labor exports and said that they were going to take steps to ensure the policy was enforced. The Asia Watch report and anecdotal evidence indicate that China has been exporting the products of prison labor. We have yet to obtain hard evidence of exports to the U.S. Customs Service is continuing to investigate. The amount of the exports, if indeed they are occurring, does not appear to be large.

Weapons Technology Proliferation Our dialogue with Beijing on proliferation issues has borne fruit on the margins. But despite our repeated urging, China continues to be unwilling to commit explicitly to important multilateral conventions, such as the NPT or the Missile Technology Control Regime. U/S Bartholomew will seek progress on these issues in his trip to Beijing. Long-standing concerns about PRC assistance to Pakistan's nuclear weapons and missile development programs have been exacerbated by the discovery of heretofore confidential Sino-Algerian nuclear cooperation. China's attitude is gradually evolving toward the international nonproliferation consensus. We have seen no deliveries of other than short-range missiles since China's 1988 assurance. China has also issued a public statement supporting effective international control of arms sales, including missiles.

-- Apart from positive interim steps on the Sino-Algerian nuclear issue, we have made only modest progress recently on our other key objectives. Legislatively mandated trade sanctions will probably be imposed soon as a result of China's missile assistance to Pakistan.

Trade Problems The rapid growth in Chinese exports to the U.S. and the application of Special 301 legislation on IPR have brought greater attention to trade problems of long-standing concern. Neither the market access nor IPR problems are new. On the positive side, the Chinese have shown a willingness to engage on these issues, sending and receiving high-level delegations for in-depth discussions. But we remain far apart on fundamental solutions. Assistant U.S. Trade Rep Massey is leading a delegation to Beijing in June to seek progress on the deficit and IPR. The Chinese have recently purchased 2.2 million tons of grain and sent a 100-member buying mission here in an attempt to show they are serious about increasing imports from the U.S. If negotiations fail, we have powerful trade authority at our disposal to press for fairer trade.

## CONGRESSIONAL STRATEGY

Over the next few months, we face two alternative procedures in Congress for denying MFN to China. We may thereby win the fast-track but still face a second battle.

- o The first is a fast-track procedure that begins when the President notifies the Congress of his intent to renew MFN.
- o The second is any normal bill to revoke or condition MFN that are subject to usual committee consideration, amendment and scheduling.

### 1. How Fast-Track Works

The President is required by law to report to Congress by June 3 his intention to waive the Jackson-Vanik provision for MFN status that relates to emigration rights from nations with nonmarket economies. That report is to be transmitted 30 days before the termination of last year's waiver on July 3. At the point at which, following the report, a joint resolution to deny MFN is introduced into the House of Representative, a 60 calendar day fast-track procedure begins. Congress has 60 days from the introduction of that bill to pass a joint resolution by both Houses. If the maximum amount of time is consumed--90 days including 30 days before termination plus 60 days to pass a joint resolution--then the process will end on September 3. In addition, the law provides that the Congress will have 15 legislative days to consider a veto message from the President.

The significance of delaying the President's notification: The later the President sends his notification to Congress, the later the process will extend. If the President notifies Congress in May, then he may face a veto in July. If he waits until June 3, then he may be able to consider his veto options during the August recess. That option would put a veto override fight into September. The problem, however, with waiting until almost June 3 is that June 3/4 is the anniversary of the Tiananmen crackdown.

2. Other Legislation: Five separate items of legislation now exist that would deny MFN for China through normal procedures. Others are expected to be introduced as well. Congress will consider these at the same time as the fast track resolutions and could use these to continue the pressure to revoke MFN after the fast-track clock has run out. These five are:

- o Gerry Solomon -- simple resolution to revoke MFN for China without conditionality.
- o Pat Moynihan -- simple resolution to revoke MFN for China without conditionality.
- o Nancy Pelosi -- prohibits the President from extending MFN next year unless the Government of China accounts for and releases citizens detained during the Tiananmen crackdown in 1989, has made progress in ending religious persecution, removing press restrictions, terminating harassment against Chinese citizens in the U.S., ensuring freedom from torture, and permitting peaceful assembly in China and Tibet. It also requires China to adhere to the Declaration on Hong Kong signed by China and the United Kingdom.
- o Jesse Helms -- introduced a bill May 9 to amend the Jackson-Vanik provision further so that, in addition to free emigration as a criteria for China, it would require an end to missile proliferation, aid to the Khmer Rouge, and "slave labor."
- o George Mitchell -- introduced a bill which would terminate MFN 180 days after enactment unless the President certifies that China has released all political prisoners, granted press freedom, ceased persecution of the pro-democracy movement, stopped harassment of Chinese students outside China, stopped religious persecution, ensured adequate protection of intellectual copyrights, demonstrated good faith in controlling the proliferation of weapons technology, and stopped exporting products manufactured in prisons.

#### Tactical Options:

Veto Override: There is little disagreement within the Administration and on the Hill that we are facing a veto-override scenario on the fast-track resolution. Following a veto on fast track, the President may be forced to veto a conditionality bill as well.

- o If we announce conditional MFN at the outset, we will see Congress add on even more conditions, regardless of the terms we impose. If we hope to end the battle with a reasonable MFN resolution, the President should begin by asking for unconditional MFN.
- o Because of extensive opposition in Congress, we are unlikely to win the straight MFN vote in either chamber. We will then have to veto whatever emerges from the first phase of MFN voting. Based on past MFN and Chinese student votes, we will not be able to sustain a veto in the House, and our strategy will boil down to a veto-override strategy on the Senate side.

- o Although we are unlikely to win the first phase -- the fast track vote -- in the Senate, it is important that we win as many Senators as possible -- otherwise we risk facing two veto fights with the impression of overwhelming anti-MFN power. Similarly, we must fight hard in the House in that first round because an overwhelming vote against the President could start an avalanche in the Senate as well.
- o As in the China student veto fight, we will have to appeal to party loyalty for our votes at each stage. The fact that Mitchell introduced the strongest anti-MFN bill will help us to portray this as a partisan fight.
- o The second phase -- a veto fight -- will involve persuading 34 Republican Senators to vote with the President. The only similar Senate vote we have had was the 1990 China student override attempt in the Senate; 37 Republican Senators voted with us, but we had Heinz (replaced by Wofford, a Democratic cosponsor of Mitchell's resolution), and Humphrey and McClure, both of whom have been replaced by more conservative Republicans. In addition, another Republican who voted with us -- Wallop -- is an original cosponsor of Mitchell's resolution.
- o The third phase will depend on working with Republicans to develop an alternate conditionality bill, which is acceptable to the administration. After we assess the Congressional reaction to the President notification message on MFN, we will have to decide whether or not we need to offer the Republicans an alternative to voting for MFN withdrawal and/or the Mitchell bill -- thus maintaining 34 votes.
- o The President should identify those things that he is most concerned about in China and those issues would be the targets of the Republican conditionality package.
- o The fourth phase may involve a second veto -- if Mitchell wins phase three. We would veto Mitchell, knowing that we maintained our thirty four vote margin in the Senate for the Republican alternative.

Jim  
Not FR distribution

Shaw

REPORT TO CONGRESS CONCERNING EXTENSION OF WAIVER  
AUTHORITY FOR THE PEOPLE'S REPUBLIC OF CHINA

Pursuant to Subsection 402 (d) (1) of the Trade Act of 1974 (hereinafter "the Act"), having determined that further extension of the waiver authority granted by Subsection 402 (c) of the Act for twelve months will substantially promote the objectives of Section 402, I have today determined that continuation of the waiver currently applicable to China will also substantially promote the objectives of Section 402 of the Act. My determination is attached and is incorporated herein.

Freedom of Emigration Determination

China's relatively free emigration policies have continued during the past twelve months. In FY 1990, 16,751 U.S. immigrant visas were issued in China. The U.S. numerical limitation for immigrants from China was fully met. The principal restraint on increased emigration continues to be the capacity and willingness of other nations to absorb Chinese immigrants, not Chinese policy. After considering all the relevant information, I have concluded that continuing the MFN waiver will preserve the gains already achieved on freedom of emigration and encourage further progress.

Chinese Foreign Travel Policies

China continues to adhere to a relatively open foreign travel policy. According to Chinese officials, issuance of passports for private travel has increased more than threefold since 1986. U.S. diplomatic posts in China issued 60,687 nonimmigrant visas in FY 1990. In FY 1990, 33,800 visas were issued worldwide to students and tourists from China, a 19 percent increase over FY 1989 and an 84 percent increase over FY 1988.

Chinese officials report that several thousand students have returned from overseas for visits after June 1989 and have been allowed to depart again under expedited procedures. We cannot verify these figures, but we are not aware of any cases in which Chinese living in the U.S. who returned to China for visits after June 1989 were prevented from leaving again.

Foreign travel officially sponsored by the Chinese Government, mainly involving businessmen and state-sponsored scholars, continued to decline in FY 1990, this reflects the effects of economic austerity measures and, in the case of scholars, concern about extended delays in their return to China. In February 1990, China issued a new directive requiring recent college graduates and fourth-year undergraduates to work for five years

before applying for overseas study, with some exceptions. The directive most likely has forced some students to defer their plans for overseas study, but its full impact is unclear since student visa applications and issuances continue to increase. We are aware of a small number of individuals who have had difficulty in obtaining permission to travel abroad, apparently because of the political activities of their relatives in the U.S. We have discussed these cases with Chinese authorities, who have indicated a willingness to address the issue.

### Overall Human Rights Climate

In addition to the emigration considerations of Section 402, we are continuing to monitor closely the overall human rights climate in China and press our concerns vigorously at all levels of the Chinese Government. Beijing has taken a number of steps on human rights issues that we have urged since June 1989. No part of China is now subject to martial law. The vast majority of those detained in the wake of the 1989 demonstrations have been released. Over 1,000 prisoners were released since the beginning of 1990. Prominent dissident Fang Lizhi and his family were permitted to leave China in June 1990, and most relatives of Chinese citizens in the U.S. who sought to join them have been allowed to do so. Chinese diplomats have ceased threatening Chinese students residing in the U.S. Authorities in Tibet have avoided violence in quelling demonstrations since March 1989. Foreign officials and journalists are again able to visit the region, and even to tour the main prison in Lhasa.

Beijing hosted an unprecedented visit by Assistant Secretary Schifter in December 1990. The Chinese have agreed to receive additional human rights delegations from the Congress, Australia and France later this year. The Schifter visit inaugurated a more formal human rights dialogue than we have ever had with China. In recent weeks, Chinese officials have begun to respond to some of our key questions on the status of cases against the detainees, the judicial process, religious repression and family planning. They have also provided assurances that China's prohibition on prison exports would be enforced, and that no special restrictions would be placed on people wishing to join dissident relatives abroad.

I nonetheless still have serious concerns about the human rights situation in China. According to official Chinese figures, 813 persons have been convicted by courts in Beijing on charges stemming from the 1989 protests, including 26 so far this year. Most were charged with crimes against persons or property but nearly 100 of these were tried for "counterrevolutionary crimes" (e.g., instigation or organizing rebellious activities) that apparently involved nothing other than nonviolent political actions. At least scores if not more have been convicted elsewhere in China. Since 1989, others, probably including

peaceful demonstrators, have been sent to labor reeducation camps for up to three years after administrative hearings. Freedom of expression, religion, the press, and association remain tightly constrained. The Chinese continue to jam the Mandarin language service of Voice of America.

In Tibet, participants in ongoing pro-independence activities continue to be subject to legal prosecution. Several hundred persons are currently incarcerated for what appear to be only nonviolent political activities.

#### Impact of MFN on Other U.S. Interests

The granting of MFN tariff status to China was a key element in the normalization of our diplomatic relations and provided a framework for a major expansion of our economic and commercial relations. Maintaining non-discriminatory tariff status is fundamental for strong bilateral trade relations with China. In 1990, bilateral trade totaled \$20 billion, with Chinese exports of \$15.2 billion and U.S. exports of \$4.8 billion. The United States is China's largest export market, absorbing 25 percent of China's total exports.

If MFN were withdrawn, China would reciprocate by applying its own higher non-MFN tariffs to U.S. products and possibly erect other trade barriers as well. With U.S. companies placed at a disadvantage, competitors from Japan and Europe would quickly move to replace U.S. exports in our largest markets in China -- grain, aircraft and aerospace equipment, industrial machinery, steel products, chemicals, fertilizers and computers. U.S. joint ventures in China would pay higher duties on imported components from the U.S., and their exports to the U.S. would be subject to non-MFN tariffs, jeopardizing their continued operations. Loss of MFN would lead to higher prices for U.S. consumers of products made in China, including toys, apparel and footwear.

Maintaining MFN is essential for promoting reform in China. The opening of China and expansion of bilateral commercial relations made possible by MFN have contributed significantly to improving living standards, introducing progressive ideas and further integrating China into the world community as it continues its drive to modernize. Withdrawing MFN would most hurt the dynamic coastal provinces in China which have gone the farthest in introducing market-oriented economic reforms. It would further isolate those in China who look to the U.S. for support in their effort to liberalize Chinese society.

Withdrawing MFN would have a major impact on Hong Kong's free enterprise economy, which depends heavily on U.S.-China trade and the health of export industries in South China. The economic disruption which followed MFN withdrawal would further undermine confidence in Hong Kong's future.

While U.S.-China relations still cannot return to normal under current circumstances, withdrawing China's MFN status would harm vital U.S. interests. On a variety of global and regional issues, China has an important and sometimes crucial influence. As a permanent member of the U.N. Security Council, China voted for twelve resolutions on the Persian Gulf and abstained on two others, enabling all to pass. China's cooperation is also important for other U.S. foreign policy objectives, such as seeking peace in Cambodia, reducing tensions on the Korean peninsula, and restricting transfers of nuclear, CBW and missile equipment and technology.

In summary, maintaining non-discriminatory trade status gives China an incentive to stay engaged on issues of vital concern to the U.S., including human rights, non-proliferation, global and regional affairs and trade. I hope to work with the Congress to achieve these shared objectives.

## BASIS FOR RENEWING CHINA'S MOST-FAVORED-NATION TRADE STATUS

--China Qualifies Under the Emigration Standard of Jackson-Vanik. China continues to maintain a relatively open foreign travel policy. Approximately 17,000 mainland Chinese received U.S. immigration visas in 1990. U.S. limits--and not Chinese restrictions--prevent emigration in larger numbers. U.S. visas issued to Chinese students and tourists rose 19 percent to 33,800 last year. Maintaining MFN promotes our freedom of emigration and travel objectives.

--Commercial Relationship Promotes Reform. Foreign trade and investment keep China open to the outside world and support the economic forces that have been driving political and social change and encouraging a loosening of state control and more personal freedom. Withdrawing MFN would have the greatest adverse impact on Chinese in the most dynamic, market-oriented coastal regions. These and other groups who depend on a healthy commercial relationship to justify business, social and academic contacts with the U.S. would be affected. Hardline, xenophobic elements in China will use MFN withdrawal to justify restrictions on these contacts and a tougher, less responsive position on issues of concern to us.

--Other Means Available to Pursue U.S. Interests. The U.S. has set the agenda for improving the bilateral relationship and has engaged the Chinese--with tangible results--on key issues of concern, including human rights, nonproliferation, prison labor exports and trade issues. Eliminating what the Chinese consider to be a fundamental pillar of the economic relationship--MFN trade status--will seriously erode, if not destroy, our ability to engage the Chinese on these issues. The President has a broad range of authority to take additional action in specific areas of concern and is prepared to do so when it serves U.S. interests. MFN withdrawal is not the appropriate tool to use in pursuing these disparate interests.

--A Trade War Will Hurt U.S. Business and Consumers. Raising tariffs on Chinese products will provoke trade retaliation. This will put at risk \$5 billion (1990) in U.S. exports, including wheat (\$511 million), aerospace (\$749 million), computers and electrical machinery (\$860 million), fertilizer (\$544 million), cotton (\$259 million) and wood products (\$281 million). Since no other country would face retaliation for withdrawing MFN, U.S. business would be placed at a competitive disadvantage. Trade actions on both sides could also adversely affect over \$4 billion in U.S. investment in China. Without MFN, U.S. consumers would pay substantially higher prices for Chinese-made clothing, footwear, toys, tools and electronics.

--A Constructive Relationship With China Serves World Peace. A nation of over one billion people that is a permanent member of the UN Security Council and has influence throughout the developing world, China has an essential role to play in promoting global peace and stability. China's support in the UN helped maintain international solidarity in confronting Iraq. Engagement with China is also serving U.S. interests in promoting peace in Cambodia and the Korean peninsula.

## CHINA'S EMIGRATION AND FOREIGN TRAVEL POLICIES

### Emigration

- China's relatively free emigration policies have continued since the renewal of MFN status in 1990. In FY 1990, 16,751 U.S. immigrant visas were issued in the PRC. The U.S. numerical limitation for immigrants from China was fully met.
- The principal restraint on increased emigration continues to be the capacity and willingness of other nations to absorb Chinese immigrants, not Chinese policy.

### Foreign Travel Policies

- China continues to adhere to a relatively open foreign travel policy. According to Chinese officials, 255,000 persons were issued passports for private travel of all kinds in 1990, a more than three-fold increase from 1986. U.S. diplomatic posts in China issued 60,687 nonimmigrant visas in FY 1990. Last year, 33,800 nonimmigrant visas were issued worldwide to Chinese students and tourists, a 19 percent increase over FY 1989 and an 84 percent increase over FY 1988.
- Chinese officials report that several thousand students have returned from overseas for visits after June 1989 and have been allowed to depart again under expedited procedures. We cannot verify these figures, but we are not aware of any cases in which Chinese living in the U.S. who returned to China for visits after June 1989 were prevented from leaving again.
- Foreign travel officially sponsored by the Chinese Government continued to decline in FY 1990, reflecting economic austerity measures and concern about extended delays in the return of officially sponsored scholars to China.
- In February 1990, China issued a new directive requiring recent college graduates and fourth-year undergraduates to work for five years before applying for overseas study, with some exceptions. This directive has undoubtedly forced some students to defer their plans for overseas study. However, its full impact is unclear since student visa applications and issuances continue to increase.
- We are aware of a small number of individuals who have had difficulty in obtaining permission to travel abroad, apparently because of the political activities of their relatives in the U.S. We have discussed these cases with Chinese authorities, who have indicated a willingness to address the issue.

ECONOMIC EFFECTS OF MFN WITHDRAWAL

-- U.S. Exporters and Investors Would Be Hurt. If MFN is withdrawn, Chinese trade retaliation is certain, including reciprocal loss of MFN status for U.S. exports to China and possibly other administrative measures to market access.

o Since no other countries would be withdrawing China's MFN status, U.S. companies would be put at a competitive disadvantage. Major exports at stake and their sales in 1990 include:

- Wheat \$511 million
- Aircraft/Aerospace Equipment \$749 million
- Fertilizer \$544 million
- Cotton \$259 million
- Timber/paper \$281 million
- Computers & Electric Products \$860 million
- Chemicals \$273 million

o ~~U.S. joint ventures in China, which now total almost 1,000 and have invested capital of over \$4 billion, would pay higher duties on U.S.-made components and their exports to the U.S. would be subject to higher non-MFN U.S. duties~~

-- Consumers Would Suffer. U.S. consumers and retailers would have to pay the sharply higher non-MFN duty rates on Chinese-made imports, including footwear, clothing and toys and electrical products. Examples include:

	<u>MFN Duty (%)</u>	<u>non-MFN Duty (%)</u>
Footwear	6.0	35.0
Sweaters	6.0	60.0
Stuffed Toys	6.8	70.0
Fans	4.7	35.0

-- Other Tools At Our Disposal to Resolve Key Trade Concerns. We have ongoing discussions with the Chinese on key economic and trade issues, including market access, intellectual property protection (where China was recently identified under Special 301), textile transshipments and dumping. We have made progress in some areas and utilized existing legislation to take additional action where necessary. China has expressed a willingness to stay engaged to resolve our concerns. Withdrawing MFN would seriously weaken our negotiating position on these issues.

## IMPACT OF MFN WITHDRAWAL ON HONG KONG AND U.S. BUSINESS THERE

- Impact on Hong Kong's Economy. The health of Hong Kong's economy is increasingly tied to the growth of south China's export industry. Approximately 2,500 Hong Kong enterprises have shifted their export-bound production facilities to the Pearl River delta in Guangdong Province. An additional 10,000-15,000 south China enterprises do assembly work for Hong Kong companies.
- China is Hong Kong's largest trading partner, accounting for 39 percent of total 1990 trade. Re-exports, which grew by 20 percent in 1990, underpin Hong Kong's trade performance.
  - o According to the Hong Kong Government, loss of MFN status could cut Chinese re-exports via Hong Kong by up to 44 percent or \$4.6 billion.
  - o First-year effects could include \$1.2 billion in lost income and 43,000 jobs or 1.5 percent of Hong Kong's labor force.
- Body Blow to Local Confidence. MFN denial would further erode local confidence, already badly shaken by Tiananmen, in the run-up to resumption of Chinese sovereignty in 1997.
  - o The drop in confidence would accelerate outward migration from Hong Kong, which now exceeds 50,000 a year and includes many professionals and managers.
- U.S. Business Interests Would Be Hurt. The U.S. has the largest number of regional headquarters in Hong Kong, with over 40 percent of the total or 252 offices. Almost half are engaged in trading activities with China, a principal market and source of supply.
  - o U.S. investment of over \$6 billion accounts for almost one-quarter of foreign direct investment in Hong Kong. A 1990 American Chamber of Commerce survey indicated that 70 percent of the approximately 900 U.S. member firms would be adversely affected and 50 percent would consider reducing staff.

## MFN Decision and Arms Proliferation Policy

- MFN Decision Advances U.S. Interests. Continuing China's MFN status preserves a PRC stake in moving toward the international consensus on nuclear, missile, and CW nonproliferation, an objective the Administration and Congress share.
- Engagement Pays Off in the Long Run. Beginning in the mid-eighties, both China's policies and the global nonproliferation context began to change. China, which once held an antagonistic view of multilateral controls on nuclear exports, joined the IAEA in 1984 and sent observers to the NPT Review Conference in 1990. China's 1987 sale of CSS-2 missiles to Saudi Arabia pre-dated the INF Agreement, the establishment of the Missile Technology Control Regime. In 1989, China made a public commitment to refrain from medium-range missile deliveries to the Middle East--and has kept to that commitment.
- Nuclear Proliferation. Our expression of concern about Sino-Algerian nuclear cooperation has led to commitments by both countries to place the cooperation under IAEA safeguards and their pledges that the cooperation is strictly for peaceful purposes. We await the next step, i.e. Algeria's discussions with the IAEA. We view favorably China's public position on nuclear exports, but would like to see China take the further steps of joining the NPT and adopting Nuclear Suppliers Guidelines. Serious concerns remain; the Administration will not ignore current problems in this area.
- Missiles. We have engaged in intensive dialogue with Beijing on its missile export policy. It is clear that in some cases China has declined proposed missile exports because of foreign policy considerations. More broadly, the Chinese Ambassador said recently that China supports effective international control on military sales, including missiles. That statement constitutes a modest step toward our objective of a PRC commitment to observe MTCR guidelines. China's missile export policy remains a high priority in our bilateral dialogue; problems that originated before the establishment of the MTCR have not disappeared, but we have seen some progress over the past half-decade. China is not a rogue elephant on proliferation: its policy is gradually changing in a favorable direction. We aim to accelerate that trend.
- Chemical Weapons. China is on record opposing the manufacture and transfer of chemical weapons, and is participating in multilateral efforts to ban chemical weapons. We have made some progress on the subject of controls over exports of CW precursors, and we hope to advance discussions in this vital area.
- Next Steps. We are encouraged by progress in some areas and still see a need for progress in others. It is because of our continuing concerns that we want to maintain a constructive nonproliferation dialogue with Beijing. Under Secretary Kimmitt raised these issues in Beijing in May, and Under Secretary Bartholomew will follow up during his upcoming visit to China.

US-PRC RELATIONS: SERVING U.S. INTERESTS

- o Our Tiananmen sanctions remain in place, though most of the rest of the G-7 and EC have ended their sanctions (our sanctions: suspension of weapons exports and military programs, TDP grants, and OPIC programs).
- o Our policy of preserving core elements of bilateral relations has succeeded in motivating positive action from China on human rights and proliferation issues.

-- U.S. dialogue on human rights has recently yielded:

--An accounting of those detained since events of June 1989:

--A total of 1804 were detained for investigation. 860 had been released by June 6, 1990 and 110 since then.

--Of those tried, by the end of 1990 715 were convicted of "beating, smashing, burning, looting, and killing" and 72 of "plots to subvert the government and the socialist system." Another 26 have been convicted in 1991.

--There are 21 still awaiting trial, including some who are receiving medical treatment at home, such as Han Dongfang.

--public commitment to prevent export of prison labor products;

--positive assurance on family reunification;

--initiation of a human rights dialogue with U.S. and other Western countries;

--a partial response to our queries on status of detained Christians.

-- The Chinese are moving in the right direction on proliferation:

--China attended at NPT RevCon in 1990;

--China acceded to the Seabed Treaty in 1991;

--Sino-Algerian Nuclear issue--public expression of willingness to follow international practice in terms of placing the cooperation under IAEA safeguards and issuing assurance that it is strictly for peaceful purposes;

--China supported UN consensus on elimination of Iraqi weapons of mass destruction;

--China recently issued a public expression of support for effective international control of military sales, including missiles;

--President Yang Shangkun recently stated unequivocally that, apart from the 1987 sale of CSS-2 missiles to Saudi Arabia, China had not sold any intermediate-range missiles. He explicitly denied China had sold such missiles to Iran or Syria.

--We have a dialogue--not monologue--on proliferation issues, including our desire for a Chinese commitment to observe MTCR guidelines.

-- China continues to share common ground with us on global/regional issues:

--China supported the international consensus during the Gulf crisis, including enforcement of military and commercial sanctions, observers to UNIKOM, relief supplies to Kurdish and Shiite refugees;

--is cooperating with efforts to find a comprehensive political solution to the Cambodian issue;

--shares our objective of reducing tension on the Korean peninsula and has taken positive steps to achieve that objective, including upgrading ties to Seoul.

- o The Administration has not flinched from tough action when necessary, but has not been casual with tools to influence positive change in order not to close off all opportunity to engage constructively the Chinese:

- The Administration is protecting U.S. interests in the trade area, e.g. designating China under Special 301 because of inadequate progress on IPR and halting illegal textile shipments;

- the Administration is reviewing the tools available to underline the seriousness with which we view proliferation issues. We are looking at ways of injecting new momentum in our discussions with Beijing on the desirability of a PRC commitment to move close to the international consensus on nonproliferation, e.g. joining the NPT and observing Missile Technology Control Regime guidelines.

- o We have maintained cooperation or achieved objectives listed above by means of patience and principle:

- Patience: we recognize that we cannot impose our values on the Chinese. We have made clear where we have different views, and have noted what we perceive as the mutual benefit in narrowing the gap between us on such issues as human rights and nonproliferation. We cannot force Beijing to see it our way--China has to have a stake in changing its domestic policies to track more closely with international standards.
  
- Principle: Have not abandoned basic principles of human rights. We seek to narrow differences where possible (e.g prison labor, family reunification) and maintain firm advocacy where substantial progress has not yet been possible (religious freedom, right to express personal political views without fear of persecution, etc.)
  
- o This combination of patience and principle is gradually yielding progress. It is in the best interest of the American and Chinese people to maintain this policy--it is working.
  
- o China has come a long way since we first engaged in 1971. Beijing has established the year 2000 as its target date for "modernization." This may be unrealistically ambitious solely in terms of the economic and commercial implications. The political, social, and cultural changes implied in China's transformation from a developing to a developed country will take even longer.
  
- Our policy is designed to maintain momentum in that process to help China achieve the broadest possible modernization at the earliest possible date.
  
- o The choice in China policy has been presented as a false dichotomy: between expression of broad condemnation and immediate imposition of maximum pressure to radically and simultaneously alter China's domestic and international policies or a complete sell-out of our fundamental values in favor of cold calculations about our strategic interests.
  
- In fact, a patient strategy as described in the foregoing, that helps the Chinese people and serves long-term U.S. interests, is practical and is working.

nonimmigrant status has expired. As well, the President instructed the Immigration and Naturalization Service to grant asylum to any person who feared persecution as a result of their opposition to mandatory government policies of forced sterilizations and/or abortions. In addition, the President argued that the bill impeded his ability to conduct foreign policy.

On January 24, 1990, the House voted, 390 to 25, to override the President's veto.

NOTE: A yea vote was a vote to override the President's veto; a nay vote was a vote to sustain the veto. A two-thirds majority of those present and voting (66 in this case) is required to override a veto.

**Those favoring the veto override contended:**

President Bush's veto of H.R. 2712 last November tarnished America's proud history of support for human rights. To remain true to that past, this Senate must pass H.R. 2712, the objections of the President notwithstanding.

June 4, 1989, was a day of shame in the history of China, when its government of old men slaughtered hundreds, if not thousands, of young students peacefully advocating democracy. This barbaric act, condemned by all civilized nations, was followed by wholesale arrests, imprisonments, and executions of Chinese youths whose only crime was to have studied in America and to have brought back with them to their homeland our democratic ideals. As part of its policy of terror and intimidation, China's government intimated that Chinese students who had to return home following the expiration of their visas would be dealt with harshly. To obviate such punishment, last year the House (by a vote of 403-0) and Senate (by voice vote) passed H.R. 2712, which exempted the 40,000 Chinese students studying in the United States from returning to China.

This statutory protection, though, was capriciously eliminated by President Bush. Claiming that he would by executive action waive the return-home obligation, and that he needed a free hand to conduct China policy, the President returned H.R. 2712 to us unsigned.

To begin with, many question the President's authority to declare such a change in immigration regulations. His order provides no statutory legal protection for the Chinese students and can be revoked by the President at his discretion. In addition, the President's order may be open to court challenge, as it appears his action is inconsistent with current immigration statutes. Only legislative changes in present law would unquestionably allow these students to remain in the United States.

As well, while the President argued that he needed to be free of Congressional interference in the conduct of his China policy, his strategy since June 4, 1989, deserves our intense scrutiny. Merely a month after the Tianamen Square murders, the President dispatched a secret mission to Peking to express the outrage of the United States at the action of the Chinese government. This was to no effect; since July, 1989, the government of China has detained or arrested more than 10,000 people, imprisoned more than 800 citizens for counterrevolutionary crimes, and executed up to 1,400 students and workers who participated in the democracy protests. In November, the President sent another delegation to meet the Chinese and, while martial law had been recently lifted in Peking, the government promulgated harsh new laws suppressing political dissent, combined the Peking police with several army units, and began a wholesale "purification" campaign of the Chinese Communist party, aimed at identifying and punishing democracy advocates. In the face of these facts, the President continues to insist that his policies are succeeding, and that Congressional protection of Chinese students seriously threatens his policy.

We do not subscribe to the President's point of view. While our relationship with China has always been complicated, the President's veto called into question United States support for human rights, and was seen as a cowardly kowtow to the butchers of Peking. We must not allow the Chinese government to believe that their brutal actions of last June are in any way endorsed by the government of the United States, and we strongly urge our colleagues to override the President's veto, pass H.R. 2712, and restore the luster to our tarnished human rights legacy.

**Those opposing the veto override contended:**

We share the revulsion and outrage of our colleagues over the deplorable behavior of the Chinese government last June, when it sent tanks into Tianamen Square to kill peaceful students whose only offense was to demonstrate for democracy. Such abhorrent behavior deserves the opprobrium of the world community. However, the Congress was carried away on an emotional tide last year when it passed H.R. 2712, and the President rightly vetoed the bill.

Uniquely qualified to judge the nuances of our relationship with China (George Bush served as America's liaison to China in 1975-76), the President believed that statutory protection would wreak havoc on the strategic U.S.-China relationship (and according to the Chinese Foreign Ministry, the consequences of a veto override would be quite grave). Instead, to protect the Chinese students and uphold our historic advocacy of human rights, the President by executive action altered the immigration status, not only of these 40,000 Chinese citizens, but all Chinese nationals currently in the United States who do not wish to return, protecting them for at least four years. Further, the President has promised, in his veto message, in communications with Senators, and in press conferences, that no Chinese student will be sent back to China until the conditions in China change.

JANUARY 25, 1990

VOTE NO. 1

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Since the President has done more by executive action than H.R. 2712 ever could, why then are we considering an override of the President's veto? Those who advocate passing H.R. 2712 argue that the President's China policy has been unsuccessful. We do not share that view. By carefully preserving the fundamental elements of the U.S.-China strategic relationship throughout the past several months, progress has been made in several areas. For example, China has: assured the United States that it will refrain from selling missiles in the Middle East; lifted martial law in Peking; released nearly 600 Chinese political prisoners; opened many previously sealed Catholic churches; taken an active and flexible role in the negotiations over the future of Cambodia; initiated discussions on a renewal of Fulbright fellowships and the operation of the Peace Corps in their country; and allowed over 7,000 new students to study in the United States. While the Chinese situation remains unsatisfactory, it is clear that the careful and measured diplomacy of President Bush has yielded progressive dividends.

With the President protecting all Chinese nationals in the United States, and the government of China relaxing its grip, we can only conclude that those who wish to override the President's veto are engaged in a crass partisan exercise that fouls any legitimate differences Senators may have regarding the President's foreign policy. It is no coincidence that all Democratic Senators support the override effort, that the Democratic leadership of both the House and the Senate have criticized the President's veto throughout the last two months (some using the pejorative term "kowtow" to describe the President's actions), and that this override attempt was scheduled as the first item of business for the Senate this year. We hope our colleagues will join us to reject this political exercise, support the President in his conduct of foreign policy, and resolve, in the future, to debate our differences on a more elevated plane free from partisan wrangling. We strongly urge all Senators to sustain the President's veto of H.R. 2712.

THE WHITE HOUSE  
WASHINGTON

JUNE 3, 1991

MEMORANDUM FOR VICE PRESIDENT  
GOVERNOR SUNUNU  
RICHARD DARMAN  
MICHAEL BOSKIN  
SERGEANT CASTLE  
ALL COMMISSIONED OFFICERS

THROUGH: DAVID DEMAREST *AD*  
FROM: BOBBIE KILBERG *BK*  
SICHAN SIV *SS*  
LEIGH ANN METZGER *LAM*

SUBJECT: UPCOMING BRIEFINGS ORGANIZED BY THE OFFICE OF  
PUBLIC LIAISON

Below is the current list of White House briefings, events and photo-ops scheduled by the Office of Public Liaison for upcoming months. We would like you to participate in whatever briefings or events interest you and suit your schedule. Also, if there are any issues of importance you wish to raise with these groups, please let us know.

If you would like more information about any particular briefing, please feel free to contact the project officer at (X7845).

JUNE 3, 1991

National Council of Jewish Women  
10:00-11:30 a.m.; Indian Treaty Room  
40 attendees  
Project Officer: Kathy Jeavons

National Federation of Independent Business (POTUS)  
1:00-1:30 p.m.; Hyatt Regency  
800 attendees  
Project Officer: Jeff Vogt

JUNE 4, 1991

Iowa Chamber of Commerce  
5:00-6:00 p.m.; Indian Treaty Room  
100 attendees  
Project Officer: Molly Osborne

JUNE 5, 1991

Meeting with the Leadership of the Orthodox Union (POTUS)  
of America  
1:45 p.m.; Roosevelt Room  
18 attendees  
Project Officer: Kathy Jeavons

JUNE 7, 1991

U.S. Business and Industrial Council  
10:45-11:45 a.m.; Room 22  
35 attendees  
Project Officer: Molly Osborne

First Friday Group  
11:30 a.m.-12:30 p.m.; Indian Treaty Room  
40 attendees  
Project Officer: Kathy Rust

Pakistani-American Briefing  
2:30-4:40 p.m.; Room 450  
220 attendees  
Project Officer: Jim Schaefer

JUNE 11, 1991

National Association of Meat Purveyors  
11:00 a.m.-12:00 p.m.; Room 180  
20 attendees  
Project Officer: Molly Osborne

JUNE 13, 1991

National Cattlemen's Association  
9:30-10:30 a.m.; Room 22  
70 attendees  
Project Officer: Molly Osborne

President's Dinner Supporters from the Korean-American Community  
10:00 a.m.-12:00 p.m.; Indian Treaty Room  
60 attendees  
Project Officer: Jim Schaefer

Multiple Sclerosis Mother & Father of the Year Photo-op (POTUS)  
11:15 a.m.; Oval Office  
Project Officer: Helen Mobley

JUNE 14, 1991

"Congress on Cardiology"  
9:00-10:30 a.m.; Room 450  
100 attendees  
Project Officer: Kathy Jeavons

1991 Farm Women's Forum  
9:30-11:00 a.m.; Indian Treaty Room  
100 attendees  
Project Officer: Molly Osborne

JUNE 18, 1991

Meeting with Recreation Roundtable (POTUS)  
1:15 p.m.; Roosevelt Room  
(TBD) attendees  
Project Officer: Kathy Jeavons

JUNE 19, 1991

Public Health Service Primary Care Policy Fellowship  
9:00-10:30 a.m.; Indian Treaty Room  
30 attendees  
Project Officer: Kathy Jeavons

Insurance Federation of Minnesota  
10:00-11:00 a.m.; Room 180  
20 attendees  
Project Officer: Molly Osborne

JUNE 20, 1991

National Council of Hispanic Women  
9:00 a.m.; Room 450  
150 attendees  
Project Officer: Shiree Sanchez

International Dairy Foods Association  
9:30-11:00 a.m.; Indian Treaty Room  
100 attendees  
Project Officer: Molly Osborne

Traditional Values Coalition  
2:00-3:30 p.m.; Room 450  
100 attendees  
Project Officer: Kathy Rust

JUNE 21, 1991

Association of School Business Officials  
10:00-11:30 a.m.; Indian Treaty Room  
50 attendees  
Project Officer: Jane Leonard

Heritage Foundation  
2:00-3:00 p.m.; Room 476  
30 attendees  
Project Officer: Kathy Rust

JUNE 26, 1991

High School Student Ambassador Program  
11:00 a.m.-12:00 p.m.; Room 450  
200 attendees  
Project Officer: Jane Leonard

Center for the Study of the Presidency's Board of Directors  
1:15 p.m.; Ward Room  
18 attendees  
Project Officer: Helen Mobley

JUNE 28, 1991

Organization of Chinese Americans  
Time (TBD); Room (TBD)  
(TBD) attendees  
Project Officer: Jim Schaefer

JULY 25, 1991

Photo-op with State President of Future (POTUS)  
Farmers of America  
11:15 a.m.; Room (TBD)  
(TBD) attendees  
Project Officer: Molly Osborne

National Paint & Coatings Association  
1:30-2:30 p.m.; Roosevelt Room  
25 attendees  
Project Officer: Molly Osborne

## REVIEW &amp; OUTLOOK

## Helping China

With gut outrage Americans watched two years ago as China's communist rulers massacred the Tiananmen Square democracy movement. Today, Congress is pouring similar feeling into a fight with President Bush over whether China deserves an extension of its "most-favored-nation" trading status. President Bush wants MFN renewed, arguing in his speech at Yale University last Monday that "It is wrong to isolate China if we hope to influence China." A vocal crowd in Congress says that Mr. Bush is too soft on China, that there should be no renewal of MFN without strict human-rights conditions attached. Senate Majority Leader George Mitchell accused Mr. Bush recently of a double standard, "one for other nations and another for China."

No doubt there are parties to this debate who truly understand the disgusting intricacies of China's communist regime and honestly care whether China's 1.1 billion people achieve the freedom some died for in 1989. But if America's political leaders want to advance freedom in China, it's time they began plastering large-character posters on Capitol Hill with slogans reminding themselves that the matter at hand is supposed to be China, not power games between Congress and the President.

## Who Should Be Favored

From that base line, there might be a chance of sorting out the real issues. America's puzzle from the beginning has been how to punish China's government for remaining communist, while at the same time supporting China's people in their desire for freedom. The Chinese communist state has snaked its way so deeply into most aspects of Chinese private life that separating the despots from the repressed is a delicate job. Fortunately, there are finer policy tools for this task than the baseball-bat thwack of revoking MFN—if only the politicians would stop emoting long enough to think.

Rather than trashing trade, America would do better to reconsider its role in direct handouts to the Chinese government, such as multilateral aid. America would also do better to remind Beijing that there are increasingly attractive rivals in Asia for Washington's favors—especially the fast-reforming Nationalist Chinese government on Taiwan.

Among the problems with the MFN approach is that it is perilous for America even in the clearest cases to invoke trade sanctions as tools for the political reform of foreign trading partners. And in the China MFN debate it is hard to track the fine line between the lofty moral urge and the nearly self-serving demands of protectionist Congressman playing to their local lobbyists.

Well before Tiananmen there was already a protectionist fervor to some of America's dealings with China. The U.S. has for years imposed quotas on Chinese garment imports at the behest of the U.S. textile lobby—and the

which handles some 70% of China's exports and stands as Asia's greatest monument to the benefits of trade.

Some may consider all this worth the cost if China's leaders comply with demands to release various jailed dissidents, end slave labor in prison and generally desist from the more visibly foul practices that come with the communist system. Problem is, that's hostage-politics. The signal it sends to Beijing is that it's all right to jail and torture people, as long as you eventually and publicly release some of them.

The human-rights issue should not be whether China at any given moment holds six political prisoners or 60,000, but whether the government wields the power to jail people at whim. The Communist Party's control does not depend on driving tanks through Beijing every day; only on being in a position to order in the tanks when it feels the urge. That must change if China is truly to reform. For that, it is probably necessary for the Beijing communist rulers not just to display better manners, but to surrender power.

## Better Options

Rather than rant about MFN, perhaps both Congress and the administration should take another look at policy options that would be felt foremost by the top cadres in Beijing.

A beginning, unorthodox but direct, would be to renew MFN, but rename it. If we're going to send messages with this device, call it Capitalism Requires Democracy status.

A deeper reprimand would be to lobby against multilateral aid and comfort to the Chinese government. The U.S. may not unilaterally control disbursements by the World Bank, the Asian Development Bank and United Nations' charity organizations, but it has a strong voice. Any funds or programs these outfits administer must be filtered through the control of China's central government, which shores up the state institutions that do the filtering.

The amounts involved are relatively minor compared with China's commercial trade. But the mere willingness of these institutions to deal with China provides a seal of approval that is grossly inappropriate. The Asian Development Bank, for example, has dumped \$11.5 million in technical-assistance grants into China since the People's Republic joined the ADB in 1986—about half of that since Tiananmen—and is scheduled this month to consider the multimillion-dollar financing of a state railway project. The World Bank earlier this year approved a \$168.4 million loan to China to help improve living conditions in three Chinese cities.

What would best improve living conditions in Chinese cities would be the disappearance of the communist party. That seems an appropriate measure of when it would make sense to resume the supply of any funds that originate with American taxpayers and flow through the hands of China's government.

Winnie Mandela  
As Her Neighbors  
See Her

By NOMAVENDA MATHIANE

SOWETO, South Africa — For four months, the trial of Winnie Mandela consumed the attention not just of South Africans but of the rest of the world. On May 13, Supreme Court Judge Michael Stegmann convicted her of kidnapping four boys in 1988, and acting as an accessory after the fact to a beating that ended with one of the boys dead. The judge had rejected her alibi as the testimony of "a calm, composed, deliberate, unblushing liar." When Mrs. Mandela stepped out of the Johannesburg courthouse that afternoon, South Africa's newspaper offices exploded with activity. But in Soweto it was just an ordinary day.

It is one of the many insults hurled at black South Africans that much of the world believes we are one monolithic mass that follows the leadership of one political party with one uniform viewpoint. In fact, when the attorney general decided to prosecute Mrs. Mandela, township opinion was as divided as ever.

Many blacks who do not belong to the African National Congress, especially those who belong to rival political organizations, were quite happy to learn of the prosecution. On the other hand, blacks who live outside of Johannesburg—and who had not been on the receiving end of Mrs. Mandela's "football club"—often refused to believe what they read in the newspapers. As for the unsophisticated people who live in rural areas, who find it hard to understand what goes on in the cities at the best of times, the whole case was mind-boggling to them.

Even within the ANC there were divisions. The dogmatists fumed: They simply insisted that Mrs. Mandela was being harassed. The young zealots who will follow her to the end danced and chanted outside the courthouse. By contrast, the ANC's more educated adherents were embarrassed by the whole business.

Many leading black South Africans dislike Mrs. Mandela. They are offended by her imperious style, her vicious temper, her refusal to listen to advice and her bad habit of shooting off her mouth.

Mrs. Mandela profits above all from the high regard in which black South Africans hold her husband. "I am not a member of the ANC," one upwardly mobile young black executive told me during the trial, "but their enemies are also mine, even though their friends are not necessarily mine."

But that regard is not unconditional, and it sometimes seems that the better you know Winnie, the less you like her. In Phomolong, the area of Soweto where the Mandelas and other older ANC leaders live, people are not protective of her. Phomolong is where the incidents that led to the prosecution took place. Many people there still remember the night Mrs. Mandela's football club broke up the A-Train Tavern, or how they killed a deserter from the club in broad daylight outside a local social hall, or their burning down of a house, two doors from that of the late Pan African Congress leader Zeph Mothopeng, in which a teen-age girl lost her life.

Most of the members of the club were children from the Phomolong area. Everyone knew which of them were responsible for the murder of the beauty queen Matshaba Loate; everyone feels sorry for Lerotho di Ikaneng, who quit the gang and has survived three attempts on his life by his former comrades—even as they remember his victims while he still belonged to the club.

If anything, it was South Africa's and the rest of the world's white press that was responsible for Mrs. Mandela's image as a black leader. It was white journalists who conferred the title "Mother of the Nation" on her; if the matter had been left to the masses, I have no doubt the title would

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Among the problems with the MFN approach is that it is perilous for America even in the clearest cases to invoke trade sanctions as tools for the political reform of foreign trading partners. And in the China MFN debate it is hard to track the fine line between the lofty moral urge and the dreary self-serving demands of protectionist Congressman playing to their local lobbyists.

Well before Tiananmen there was already a protectionist fervor to some of America's dealings with China. The U.S. has for years imposed quotas on Chinese garment imports at the behest of the U.S. textile lobby—and the expense of the American consumer. Currently there are quotas on such goods as yarn, fabrics, shoes and umbrellas. American quotas apply also to many such items made in Hong Kong. These policies have nothing to do with U.S. concern for human rights or the general prosperity—except to undermine them.

## The Meaning of MFN

A glance at the U.S. tariff schedules confirms that withdrawing MFN would hurt the freest parts of China, which are the small private enterprises along the southern coast. It is important to understand that MFN, despite its name, is not a status conferred on a favored few. MFN is simply the odd label for routine trading status with the U.S., conferred on all but about a dozen hostile countries such as North Korea, Vietnam and the Soviet Union. Any country selling its goods into America under MFN is basically competing in the world market. That means any huge tariff increase for Chinese goods would translate in effect into a blockade.

Should America withdraw MFN from China, the new tariff schedule applied to Chinese imports would rise most drastically for the light consumer goods that make up the bulk of China's sales to the U.S. Tariffs on cotton T-shirts would rise to 90% from 21%. Tariffs on toys and music boxes would rise to 70% from 6.8%. Cotton petticoats would take a 90% tariff hit, up from 17%.

Manufacturing for the export of such discount-store products is precisely what has in recent years brought a westward-looking boom to the coastal Chinese provinces of Guangdong—next to Hong Kong, and Fujien—across the strait from Taiwan. Guangdong alone, with some 65 million people or 6% of the Chinese population, accounted last year for about \$22 billion in sales abroad, or more than one-third of China's exports.

Revoking MFN would also deeply damage free-market Hong Kong,

has a strong voice. Any funds or programs these outfits administer must be filtered through the control of China's central government, which shores up the state institutions that do the filtering.

The amounts involved are relatively minor compared with China's commercial trade. But the mere willingness of these institutions to deal with China provides a seal of approval that is grossly inappropriate. The Asian Development Bank, for example, has dumped \$11.5 million in technical-assistance grants into China since the People's Republic joined the ADB in 1986—about half of that since Tiananmen—and is scheduled this month to consider the multimillion-dollar financing of a state railway project. The World Bank earlier this year approved a \$168.4 million loan to China to help improve living conditions in three Chinese cities.

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## Don't Punish Consumers

Though cutting off a \$600,000 grant such as that approved this past January by the ADB for "Environmental Impact Assessment Training" might sound like small stuff, it will be felt immediately by the cadres on the receiving end—where it translates into big money. If the aim is to train Chinese officials, the money could better be spent offering scholarships to come to the U.S. and return home spiritually polluted and schooled in the daily ways of a democracy. For Americans, taking this approach rather than slamming shut trade has the added advantage that it doesn't punish U.S. consumers.

If anything, it would either save them tax money, or put it to better use in countries where aid at least stands a better chance of serving decent ends—such as the newly non-communist countries of Eastern Europe.

Want another productive policy initiative? Lobby loudly for the admission of Taiwan ahead of Communist China to both the General Agreement on Tariffs and Trade and the newly formed Asian-Pacific Economic Conference. That would leave it even less ambiguous that America likes to recognize and reward the achievements of democratizing Chinese governments—but has less time for people who drive tanks through Tiananmen Square.

It may be too much to hope that Congress can resist cheap shots at George Bush over MFN, or that the administration would actually throw its full weight into swaying the bureaucrats of the World Bank, ADB and U.N. There would be stiff resistance from the staffers of these organizations—who are important in China only as long as they tender the communists money and respect. But by leaving trade to take care of itself and by focusing directly on Beijing's more obvious vulnerabilities, the parties to the MFN debate would better help both China and America, which is presumably the point of the exercise.

the ANC," one upwardly mobile young black executive told me during the trial, "but their enemies are also mine, even though their friends are not necessarily mine."

But that regard is not unconditional, and it sometimes seems that the better you know Winnie, the less you like her. In Phomolong, the area of Soweto where the Mandelas and other older ANC leaders live, people are not protective of her. Phomolong is where the incidents that led to the prosecution took place. Many people there still remember the night Mrs. Mandela's football club broke up the A-Train Tavern, or how they killed a deserter from the club in broad daylight outside a local social hall, or their burning down of a house, two doors from that of the late Pan African Congress leader Zeph Mothopeng, in which a teen-age girl lost her life.

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If anything, it was South Africa's and the rest of the world's white press that was responsible for Mrs. Mandela's image as a black leader. It was white journalists who conferred the title "Mother of the Nation" on her; if the matter had been left to the masses, I have no doubt the title would have gone instead to the motherly wife of Walter Sisulu, the titular chief of the ANC. And Mrs. Mandela reciprocated these attentions: Although ignorant of the names of the leading black journalists, she was on a first-name basis with white journalists.

But like many people who have risen to powerful positions, she soon became arrogant. She started to treat her white admirers shabbily, refusing to respond to phone calls, breaking appointments, and abusing those who questioned her. Now the white press at home and abroad has turned on her.

White criticism of Mrs. Mandela puts many blacks in an awkward situation. When one of the "returnees"—the old ANC members who have spent the past 25 years in exile—decided to curry favor with the Mandelas by nominating Mrs. Mandela to be head of the ANC's Women's League, many of the ANC's white sympathizers objected. The issue then became racial, with black members refusing to support the whites' objections. But when it came time for the black members to vote on April 28, they voted against her.

Whichever way one looks at it, the Winnie Mandela saga has retarded the struggle of South African blacks by tainting a just cause with criminal activity—a criminal activity the ANC had nothing to do with. The organization may be guilty of numerous sins, but it is not guilty of those that occurred in Mrs. Mandela's house.

Unlike the white press, which suggests that Nelson Mandela is foolishly besotted with Winnie, township people above all feel sorry for him. "What do white people expect the poor man to do?" they ask. "If he keeps quiet, they draw conclusions, and when he opens his mouth, they criticize him." And yet, the case cannot help but damage him too. "If Mandela cannot look after one woman," asks a cynic I know, "how can he hope to look after 26 million blacks?"

Ms. Mathiane, a reporter with the Johannesburg Sunday Star, is the author of "South Africa: A Diary of Troubled Times" (Freedom House, 1989).

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## POLITICS &amp; POLICY

Bush Library Photocopy

# Broad Coalition Opposes Bush on China Trade, But He Could Prevail With a Few Key Concessions

By PETER TRUELL

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—It was old China hand George Bush who decided to extend Beijing's trade privileges for another year. But it is politician George Bush who will have to make the decision stick.

The president's intention to extend China's most-favored-nation status despite the 1989 Tiananmen Square massacre of pro-democracy demonstrators and continuing repression by the Chinese leadership has aroused broad opposition in Congress. But Mr. Bush's effort still stands a chance of success. The reason: The very breadth of the coalition makes it possible for him to break off parts of it by offering limited concessions in a number of areas, from human rights to intellectual-property disputes.

"We're starting perhaps a little behind on this, but I think I can explain it," Mr. Bush, a former U.S. envoy to Beijing, told reporters last week in Kennebunkport, Maine.

The president isn't likely to prevail in the first round. There's a good chance that both houses of Congress will vote against his decision by the end-of-August deadline. But that would surely trigger a presidential veto, and the White House strategy is based on draining away enough votes—at least one-third in each house of Congress—to sustain the veto.

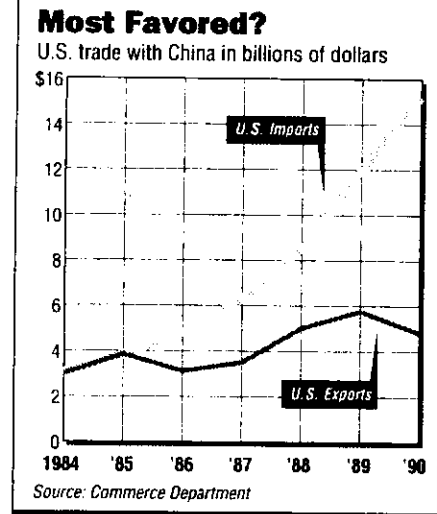
Complicating the president's task are the effects of Beijing's managed trade policies, which have exacerbated economic tensions between the two nations. While Chinese exports to the U.S. have boomed, U.S. exports to China fell more than 17% in 1990, according to the Commerce Department. This year, the U.S. is expected to run a trade deficit with China of as much as \$15 billion; that would be sharply wider than the \$10.4 billion gap of 1990 and would make it second only to the U.S. trade deficit with Japan.

## Defusing the Opposition

The White House already has begun seeking to defuse some of the opposition by offering concessions on specific issues. "The president is trying to sketch out a policy that shows there are a number of instruments for addressing these issues, rather than taking away most-favored-nation," says Harry Harding, a senior fellow at the Brookings Institution.

Among other things, the administration has said that conditions on human rights might be attached to the extension. The president also says he will restrict the sale of advanced computers to China to protest its sales of sophisticated weapons to other nations, particularly Pakistan. And Carla Hills, the White House trade representative, has begun action against China's intellectual-property abuses; U.S. companies are losing an estimated \$400 million a year in copyright and patent revenue for computer software and other products.

In addition, administration officials are looking to the Chinese themselves for a



hand—specifically, a further release of political prisoners to follow some modest steps Beijing has taken recently.

Though it sounds highly privileged, most-favored-nation status is a routine international convention that allows a country access to the lowest tariff levels accorded to other trading partners. The U.S. accords the status to more than 100 countries, most of them permanently. Under the 1974 Trade Act, though, the trade status of Communist countries must be renewed either annually or semiannually.

The opposition to Mr. Bush's decision to renew China's status is being led by Senate Majority Leader George Mitchell. "It's very clear the president's policy has failed," the Maine Democrat said on CBS News's "Face the Nation" yesterday. "The response to a failed policy is more of the same."

## 'Support for Democracy'

Along with 27 co-sponsors, Mr. Mitchell has introduced the Support for Democracy, Human Rights and Fair Trade Act of 1991. The bill would extend China's trade status for only 180 days; after that, it would depend on China meeting several conditions concerning human rights, trade, weapons proliferation and forced labor. Mr. Mitchell yesterday said the bill would pass both houses by "a substantial majority" but said he didn't know whether Congress could override a presidential veto.

Administration officials say it's highly unlikely that China could, or would, meet those conditions. "Most likely we will attach such tough conditions to it that for all practical purposes it's a turndown of most-favored-nation status," says Indiana Rep. Lee Hamilton, a senior Democrat on the House Foreign Affairs Committee who supports the designation for China.

It isn't only liberal Democrats such as Sen. Mitchell who are unhappy with the president's decision. A number of conservative Republicans, especially in the House, are equally vociferous. Rep. Gerald Solomon of New York accuses China of being "irresponsible in foreign policy" and

## Navy Bears the Brunt of Base Closings In Expanded List Proposed by Panel

By ANDY PASZTOR

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The expanded list of potential base closings released by a congressionally created commission portends big problems for the Navy.

The commission, asserting its independence from the Pentagon, added 35 more domestic military facilities to 43 other sites previously targeted by the Pentagon for closure or cutbacks. The commission's action nearly doubles the number of major facilities it is reviewing. Twenty of the new

Works Committee contend doesn't come under the commission's jurisdiction.

The Navy facilities added to those previously under review include: California's Treasure Island Naval Station and homeports in Staten Island, N.Y.; Pascagoula, Miss., and Ingleside, Texas. Budget pressures have already scaled back the homeport program, and Defense Secretary Dick Cheney recently told Congress he may seek further cuts. Some of the five ports announced by the commission Friday are still under construction and lawmakers

## Rio Algom Remain In Uranium

By a WALL STREET JOURNAL

TORONTO agreed to acquire sources Inc. share for \$6.40 a share and \$41 million.

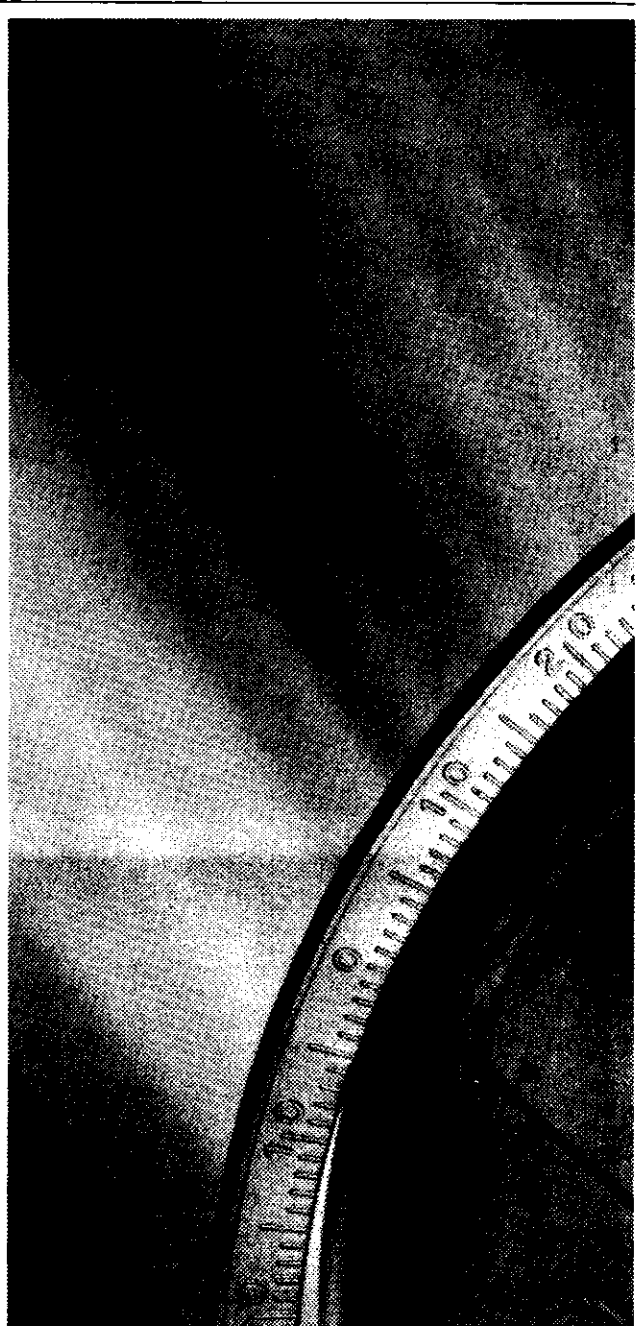
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The acquisition would give Toronto access to lower-cost addition, Uranium Dallas, has perling uranium b from the ore w Rio Algom has similar technology.

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POINTS TO BE MADE FOR  
BIPARTISAN CONGRESSIONAL MEETING

- In my message to the Congress arguing the case for MFN for China, I told you I want to work with you.
- Today, I would like to begin with a few points and then get your views.
- First, I firmly believe MFN is the strongest tool we have to bring about long-term positive change in China. Ten years of trade and openness set in motion the forces we saw in those protests at Tiananmen.
- We should not put this tremendous advantage at risk. We should not give the hardliners in China an opportunity -- by our placing conditions on MFN -- so that they can resist, so that they can defeat their reformist rivals.
- Second, our China policy is a package approach. When there are opportunities to cooperate with China -- in the UN, Korea, Cambodia -- we will do so.
- But when China transgresses, I will not kowtow, I will take action. I have already done so on human rights, trade, and proliferation.
- You know we still have sanctions on OPIC, TDP, international lending that is not for Basic Human Needs, all military sales and high-level exchanges.
- We have designated China a priority country under Special 301 for copyright pirating; we have lifted Chinese textile visas in retaliation for illegal third-country transfers; we will soon begin market access talks.

- The Chinese have responded with a buying mission, and they say more will follow.
- Last week, we acted to press China to conform to international standards on missile transfers. There will be no new satellite licenses or high-speed computer transfers to China until it meets those standards. There will be no transfers of missile technology or equipment to Chinese companies engaged in proliferation.
- I am not sitting on my hands. I am prepared to do more when circumstances require.
- Third, we need to step back from the emotions of the moment and calculate our long-term national interests.
- We are the only nation in the world that would contemplate removing or conditioning MFN. If we pull back, we isolate ourselves, not China.
- We may not like it, but China is a necessary part of the solution to some important problems. It has a veto in the UN Security Council.
- The system that rules China today will not change dramatically overnight. But that system cannot insulate itself from inevitable change.
- I believe the best course is to use economic involvement -- and all the human interchanges that go with it -- to encourage long-term evolution in China.
- Now I would like to hear your views.

- There is a process in place to deal with China and MFN. I am asking you today to look carefully at the big picture.
- Please don't rush to a conclusion. Give us a chance to address your concerns before you decide.

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trade, imbalance  
human rights  
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BAUCUS

consists more reform minded  
Extend MFN helps reform  
provinces make their point,  
Keep going further in 301,  
SECAM restrictions  
multi lateral trading - human rights  
may have to go further.

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SIMPSON

met w/ Ambassador  
agreed. Baucus,  
conditions?

LYGARR

Screwed - Pool material good stuff.

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LIEBERMANN

All agree on policy  
clean up human rights, want more  
trade,  
unrealistic - Mitchell  
is there a ground to do both

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MCCAIN

concerned about Khmer Rouge,  
unacceptable  
unconscionable  
Chinese not involved in peace process  
as they should.

KERRY

very much undecided  
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not on upside,  
Persuaded on negatives to withdrawal  
Not persuaded on leverage issues.

COATS

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where we are.

BROWN

undecided  
intrigued by notion there are some  
conditions we might consider.

SEYMOUR

give some signh letter, not business as  
usual

GRASSLEY

Extent to which GB says tough things  
about China.

THE WHITE HOUSE

WASHINGTON

JUNE 3, 1991

MEMORANDUM FOR VICE PRESIDENT QUAYLE  
GOVERNOR SUNUNU  
RICHARD DARMAN  
MICHAEL BOSKIN  
SERGEANT CASTLE  
ALL COMMISSIONED OFFICERS

THROUGH: DAVID DEMAREST *AD*  
FROM: BOBBIE KILBERG *BA*  
SICHAN SIV *SS*  
LEIGH ANN METZGER *LAM*

Below is a current list of White House meetings scheduled by the Office of Public Liaison for the week of June 3rd. If there are any issues of importance you wish to raise with these groups, please let us know.

JUNE 3, 1991

National Council of Jewish Women  
10:00-11:30 a.m.; Indian Treaty Room  
40 attendees  
Project Officer: Kathy Jeavons

National Federation of Independent Business (POTUS)  
1:00-1:30 p.m.; Hyatt Regency  
800 attendees  
Project Officer: Jeff Vogt

JUNE 4, 1991

Iowa Chamber of Commerce  
5:00-6:00 p.m.; Indian Treaty Room  
100 attendees  
Project Officer: Molly Osborne

JUNE 5, 1991

Meeting with the Leadership of the Orthodox Union (POTUS)  
of America  
1:45 p.m.; Roosevelt Room  
18 attendees  
Project Officer: Kathy Jeavons

JUNE 7, 1991

U.S Business and Industrial Council  
10:45-11:45 a.m.; Room 22  
35 attendees  
Project Officer: Molly Osborne

First Friday Group  
11:30 a.m.-12:30 p.m.; Indian Treaty Room  
40 attendees  
Project Officer: Kathy Rust

Pakistani-American Briefing  
2:30-4:40 p.m.; Room 450  
220 attendees  
Project Officer: Jim Schaefer

File 1

9 AP 05-28-91 07:38 EDT 92 Lines. Copyright 1991. All rights reserved.  
PM-Congress-China, 2nd Ld-Writethru, a0459,800<  
Democrats Will Fight Bush Plan To Continue China Trade Status<  
With PM-Bush Bjt<  
EDS: Inserts 4th graf, ^^Mitchell, speaking xxx president's  
policy'' with Mitchell comment on congressional support<  
By DAVID BRISCOE=

Associated Press Writer=

WASHINGTON (AP) The Senate's leading Democrat says he'll fight President Bush's plan to continue favored trade status for the Chinese government.

Senate Majority Leader George Mitchell said the president was ignoring China's human rights, trade and labor violations in seeking unconditional renewal of China's most-favored-nation trade status for another year.

Mitchell, D-Maine, also objected to Bush's claim it would not be ^^moral'' to punish Beijing.

^^What is especially offensive ... is that he seeks to clothe what is an immoral policy in moral terms,'' Mitchell told reporters Monday in Portland, Maine. ^^I intend to make every effort to reverse this mistaken policy.''

Mitchell, speaking today on NBC's ^^Today'' show, said a ^^clear majority'' in Congress opposes Bush's decision. But he added, ^^Whether we've got two-thirds I don't know and we won't know until the vote comes.'' Congress needs a two-thirds vote to reject the president's policy.

Bush, announcing his decision Monday in a commencement speech at Yale University, said his purpose was ^^to pursue a policy that has the best chance of changing Chinese behavior.''

To censure China, cut ties and isolate it ^^is not moral,'' Bush said. ^^We will not be able to advance our cause or resist repression if we pull back and declare that China is simply too impure a place for us.''

Senior administration officials accompanying Bush said he also was moving to retaliate against China for providing long-range missiles to Pakistan by blocking sale to China of \$30 million in high-speed computers and barring satellite licenses. The officials said the move would hinder China's satellite program.

Mitchell called Bush's sanctions ^^a joke. They aren't even a slap on the wrist.''

In Beijing, the Chinese Foreign Ministry said, ^^This is a realistic and wise decision for which the Chinese government would like to express its appreciation.''

White House officials said Bush would give Congress his proposal for an unconditional extension of China's favored status later this week. It would take effect if Congress does not pass a joint resolution against it within 90 days. The House resumes sessions Wednesday and the Senate next Tuesday.

Three bills are pending in Congress to either withdraw China's status now or withdraw it in six months if Bush does not certify that China is meeting human rights standards, trading fairly, not using slave labor and not spreading the technology for nuclear, chemical and biological weapons.

Most-favored-nation status is bestowed on nearly all major U.S. trading partners. Bush said "it is not special, it is not a favor. It is the ordinary bases of trade worldwide."

The president said the United States was the first nation to impose economic sanctions against China after the bloody crackdown on the freedom movement at Tiananmen Square in June 1989 and "now we are the last, alone among the Western democracies, to keep those original sanctions in place."

A leading supporter of Bush's China policy, Sen. Richard Lugar, R-Ind., agreed with Bush that good trade relations with China would strengthen the chances for democracy and help Chinese citizens trying to reform their economy.

"We must take care not to harm the most those who deserve it least," Lugar said. "Those reform-minded entrepreneurs who are struggling today to make a difference will be tomorrow's leaders of democratic change."

The Footwear Distributors and Retailers of America cheered the president's move. Its president, Peter T. Mangione, said it will benefit American consumers "who now can purchase inexpensive shoes, clothing, toys and other products from China."

Rep. Nancy Pelosi, D-Calif., said the steps to block the Chinese from providing missile technology to other countries would have little impact on members of Congress who want conditions placed on trade relations with China.

A restrictive China trade bill she has reintroduced this session with 100 co-sponsors passed 338-30 in the House last year but failed to come up in the Senate before adjournment.

Rep. Stephen Solarz, D-N.Y., chairman of the House Foreign Affairs subcommittee on Asian and Pacific affairs, said Bush's decision "sends the wrong signal that we really do have a double standards when it comes to human rights one for the Soviet Union, Cuba, Vietnam ... and another one for China."

Bush's decision also brought criticism from a U.S.-based group advocating Chinese reform.

"Bush continues to choose the wrong side of history, standing with a dying generation of rulers who have lost the support of the Chinese people," said Shen Tong, a Tiananmen Square leader and chairman of the Democracy for China Fund. "The world must not let the rulers in Beijing conclude that anything goes."



# White House faces battle on Beijing's status

By Major Garrett  
THE WASHINGTON TIMES

The White House will face hostility from conservatives and liberals and skepticism from the center when it asks Congress this week to renew unconditionally the most-favored-nation trading status with China.

The renewed round of controversy, triggered by President Bush's announcement yesterday of intentions to renew China's MFN status, is expected because of previous battles over the communist nation's status in the aftermath of bloody crackdowns against pro-democracy dissidents.

Many in Congress want to withhold MFN until China undertakes significant human-rights reforms.

During a commencement speech at Yale University yesterday, Mr. Bush said any move to "isolate" or "censure" China would be immoral. But Mr. Bush did impose some restrictions on China because of its export of missile technology.

The president's most outspoken opponent on China, Senate Majority Leader George Mitchell, led congressional objections to the announcement.

"The president's decision is without any moral or logical basis," Mr. Mitchell said in a statement. "By granting unconditional most-favored-nation status again this year, there continues to be no incentive for the Chinese communist leadership to change its policies."

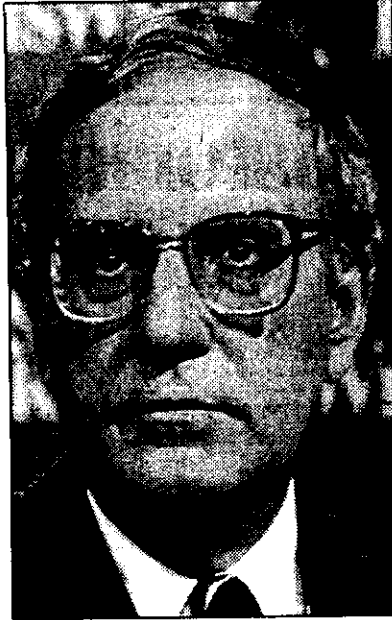
Mr. Mitchell has introduced legislation placing so many conditions on MFN for China that many observers believe it would effectively kill the special trading status.

Rep. Nancy Pelosi, California Democrat, said the steps to block the Chinese from providing missile technology to other countries would have little impact on members of Congress who want conditions placed on trade relations with China.

Rep. Stephen Solarz, New York Democrat and chairman of the House Foreign Affairs subcommittee on Asian and Pacific affairs, said Mr. Bush's decision "sends the wrong signal that we really do have a double standard when it comes to human rights — one for the Soviet Union, Cuba, Vietnam ... and another one for China."

A leading supporter of Mr. Bush's China policy, Sen. Richard Lugar, Indiana Republican, agreed with the president that good trade relations with China would strengthen the chances for democracy and help Chinese citizens trying to reform their economy.

Mr. Bush, who headed the U.S.



Sen. George Mitchell

mission in China in 1974-75, has argued that China must be coaxed toward reform. He has said access to Western commerce, ideas and culture inspire dissidents, thereby laying the groundwork for political liberalization once Beijing's aging rulers leave power.

Congress has granted MFN status to China, the country's 10th largest trading partner, every year since 1980. But opposition to lax trade relations has grown since Beijing's murderous suppression of student protests in Tiananmen Square in June 1989.

To many lawmakers, China's rogue image has been reinforced by the show trials of the students arrested after Tiananmen and widespread reports of slave labor. Others protest China's trade surplus with the United States, which last year reached an estimated \$11 billion.

The president is expected to argue that U.S. policy paid dividends during the Persian Gulf war. China voted to "abstain" during U.N. Security Council deliberations over the resolution authorizing force against Iraq. A "no" vote would have robbed Mr. Bush of the U.N. approval to prosecute the war and could have undercut him at home.

The White House gave China a one-year MFN renewal last June. The authority expires July 2. Congress will have 90 days to vote to disapprove the MFN request. Mr. Bush would veto any disapproval. A veto override would require two-thirds majorities in both chambers.

• This article is based in part on wire service reports.

Witherby  
785/366

Gray 45181

Leighton  
626572


Good  
301-243374

Shelz  
2105

THE WHITE HOUSE

WASHINGTON

MEETING WITH SELECT BIPARTISAN SENATORS

DATE: June 19, 1991  
LOCATION: Cabinet Room  
TIME: 3:00 p.m. (45 minutes)  
FROM: Frederick D. McClure 

I. PURPOSE

To meet with key Senators to discuss the resolution to grant China Most Favored Nation status.

II. BACKGROUND

This meeting is a continuation of our bipartisan consultations with Senators on the importance of extending Most Favored Nation trade status to China. Today's group includes Democratic Senators who are potentially supportive because of their interest in maintaining trade with China. The Republicans are members of the Foreign Relations Committee; Commerce, Science and Transportation Committee; and Finance Committee, all of which have various interests in China Most Favored Nation status.

III. PARTICIPANTS

See Attachment A.

IV. PRESS PLAN

White House Press Pool.

V. SEQUENCE OF EVENTS

Members will be met in the West Lobby and escorted to the Cabinet Room for the meeting with you.

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Attachment A: Participants List  
Attachment B: Talking Points (to be provided by NSC)

Participants List

The President

Richard Darman, Director, Office of Management and Budget  
Carla Hills, United States Trade Representative

Lawrence Eagleburger, Deputy Secretary of State

Congressional Participation

Senator Robert Dole (R-KS), Republican Leader  
Senator Brock Adams (D-WA)  
Senator John Breaux (D-LA)  
Senator John Chafee (R-RI)  
Senator John Danforth (R-MO)  
Senator David Durenberger (R-MN)  
Senator James Exon (D-NE)  
Senator Orrin Hatch (R-UT)  
Senator J. Bennett Johnston (D-LA)  
Senator Nancy Kassebaum (R-KS)  
Senator Mitch McConnell (R-KY)  
Senator Bob Packwood (R-OR)  
Senator Charles Robb (D-VA)  
Senator William Roth (R-DE) *J. Baucus*

White House Participation

John Sununu, Chief of Staff  
Brent Scowcroft, Assistant to the President for National Security  
Affairs  
Andy Card, Assistant to the President and Deputy to the Chief of  
Staff  
Philip Brady, Assistant to the President and Staff Secretary  
Dave Demarest, Assistant to the President for Communications  
Marlin Fitzwater, Assistant to the President and Press Secretary  
C. Boyden Gray, Counsel to the President  
Ede Holiday, Assistant to the President and Secretary of the  
Cabinet  
Fred McClure, Assistant to the President for Legislative Affairs  
Roger Porter, Assistant to the President for Economic and  
Domestic Policy  
James W. Dyer, Deputy Assistant to the President for Legislative  
Affairs (Senate)  
Steve Hart, Deputy Assistant to the President and Director of  
Legislative Affairs  
Virginia Lampley, Special Assistant to the President and Senior  
Director of Legislative Affairs, National Security Council  
Douglas Paal, Director, Asian Affairs, National Security Council

Others

Janet Mullins, Assistant Secretary of State for Legislative  
Affairs

Bill Gribbin, Assistant to the Vice President for Legislative  
Affairs

Mary Tinsley, Assistant United States Trade Representative for  
Legislative Affairs

LLOYD BENTSEN, TEXAS, CHAIRMAN

JANIE PATRICK MOTTENHAM, NEW YORK  
MAX BAUCUS, MONTANA  
DAVID L. BORN, OKLAHOMA  
BILL BRADLEY, NEW JERSEY  
GEORGE J. MITCHELL, MAINE  
DAVID PRYOR, ARKANSAS  
DONALD W. RIEGLE, JR., MICHIGAN  
JOHN D. ROCKEFELLER IV, WEST VIRGINIA  
TOM DASCHLE, SOUTH DAKOTA  
JOHN BREAUX, LOUISIANA

BOB PACKWOOD, OREGON  
BOB DOLE, KANSAS  
WILLIAM V. ROITH, JR., DELAWARE  
JOHN E. DANFORTH, MISSOURI  
JOHN H. CHAPPE, RHODE ISLAND  
JOHN HENZ, PENNSYLVANIA  
DAVID DURENBERGER, MINNESOTA  
WILLIAM L. ARMSTRONG, COLORADO  
STEVE SYMMS, IDAHO

# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

VANDA B. McMURTRY, STAFF DIRECTOR AND CHIEF COUNSEL  
EDMUND J. MHALSKI, MINORITY CHIEF OF STAFF

June 19, 1991

Dear Mr. President:

Congress will decide in the next few weeks whether to accept your recommendation and extend most favored nation trade status to China. We are writing to share our concerns.

In the debate over the appropriate U.S. policy towards China, one thing is clear: China's behavior must change. The United States has serious human rights and foreign policy concerns with China. Every American remembers the vivid images of the Tiananmen massacre. In the two years since Tiananmen Square, evidence of democratic reform has been scant at best. We also have learned of Chinese sales of advanced missiles to Syria and Pakistan, and of nuclear technology sales to Algeria. There are credible reports that China has forced political prisoners to produce goods for export to the U.S.

The United States also has serious economic concerns with China. The U.S. Trade Representative's annual report on foreign trade barriers lists ten pages of Chinese barriers. China maintains restrictions including a preclusive licensing system, discriminatory testing and certification standards, and outright import bans. China also fails to protect U.S. intellectual property, resulting in enormous losses to U.S. producers of films, books, chemicals and pharmaceuticals. Moreover, the Administration has allowed China to dictate U.S. policy towards Taiwan, declining to support Taiwan's GATT application despite clear economic benefits to the U.S. China's support of the Khmer Rouge in Cambodia is counterproductive to U.S. interests there.

The United States cannot continue to tolerate Chinese intransigence. We must tailor active responses to our wide ranging concerns. But MFN is the wrong tool for the job. Revoking MFN would not promote human rights in China. Instead, it would punish China's most progressive regions and Hong Kong.

Revoking MFN also would hurt Americans. China is an important market for U.S. goods ranging from wheat to airplanes. If MFN were revoked, China almost certainly would retaliate against U.S. exports. The Australians, Canadians, Europeans and Japanese are ready to fill the void. No other country is contemplating cutting off China's MFN status.

We believe the Administration must be more active in addressing American concerns with China. You have taken meaningful steps in some areas. You have moved to protect U.S. intellectual property under provisions of the 1988 Trade Act. You also have taken steps to restrict certain technology transfers to China in response to its missile and nuclear sales. These steps are examples of the types of actions the U.S. should take.

Page 2  
June 19, 1991

We urge you to take appropriate actions in other areas. Human rights is a foremost concern. Revoking MFN would be counterproductive. But other steps can be taken. For example, the U.S. could reinvigorate its opposition to multilateral loans for China. The U.S. also could take strong action under U.S. law to address China's unfair trade barriers and imports produced by prison labor. In the area of nuclear and missile proliferation, the U.S. could immediately negotiate for strict, multilateral technology restrictions conditioned upon Chinese adherence to accepted international standards. As for Taiwan, the U.S. could immediately give strong support to Taiwan's GATT application.

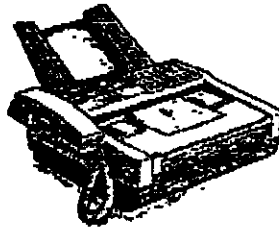
These measures do not represent an exhaustive list. But it is essential that the Administration take concrete steps. If Congress is to extend China's MFN, we must see tangible evidence that the Administration is taking action. We look forward to hearing your response to our concerns.

Barnes  
Burdick  
Johnston  
Robb

Dale  
Roth  
Craig  
Lujan  
Kassebaum

Facsimile Transmission

Date: 6/14/91



Senator Richard G. Lugar  
306 Hart Senate Office Building  
Washington, D.C. 20510  
202/224-4814

Total Number of Pages (including this sheet) 3

To: JIM DYER

From: MARY MORAN  
phone: \_\_\_\_\_

Please Note:

PLEASE ADVISE ME IN RE MY  
BOSS SIGNING

We urge you to take appropriate actions in other areas. Human rights is a foremost concern. Revoking MFN would be counterproductive. But other steps can be taken. For example, the U.S. could reinvigorate its opposition to multilateral loans for China. The U.S. also could take strong action under U.S. law to address China's unfair trade barriers and imports produced by prison labor. In the area of nuclear and missile proliferation, the U.S. could immediately negotiate for strict, multilateral technology restrictions conditioned upon Chinese adherence to accepted international standards. As for Taiwan, the U.S. could immediately give strong support to Taiwan's GATT application.

These measures do not represent an exhaustive list. But it is essential that the Administration take concrete steps. If Congress is to extend China's MFN, we must see tangible evidence that the Administration is taking action. We look forward to hearing your response to our concerns.

Sincerely,

Max Baucus

Ben Rayburn

Mike Bicker

Richard Shelby

Doc Searles

Wendell Ford

Al Broy

Bob McLean

Bill Roth

Mike Lugar

Frank Lautner

Mark Leland

Tommy Thompson

Frank H. Meek

Chris Hatch

Baucus letter:  
trade trans for sanctions  
Sect 301 self init  
market access  
Further consultations w)  
Allies -

ISA/JCS.  
Re: ProLife  
Wolfowitz

Bush Library Photocopy