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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Legislative Affairs, White House Office of
Series: Dyer, James W., Files
Subseries:

OA/ID Number: 08451
Folder ID Number: 08451-010

Folder Title:
China MFN [6]

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Withdrawal/Redaction Sheet (George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01a. Letter	To: Senator Baucus From: President Bush Re: China's MFN Status (4 pp.)	7/19/91	(b) (1)	
01b. Paper	Re: Human Rights/Trade and Economic Issues (15 pp.)	n.d.	(b) (1)	

Collection:

Record Group: Bush Presidential Records
Office: Legislative Affairs, White House Office of
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WHORM Cat.:
File Location: China MFN [6]

Pinksheet Number: MB4343
OA/ID Number: 08451-010
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THE SECRETARY OF STATE

WASHINGTON

JUN - 4 1991

Dear George:

I am writing to urge you to consider carefully how renewal of most-favored-nation (MFN) status for the People's Republic of China serves U.S. interests. I assure you that the Administration stands with Congress in wanting to see greater respect for internationally respected human rights, a stronger Chinese commitment to global nonproliferation objectives and fair trade, and continuing political and economic reform within China. I believe strongly that renewal of MFN promotes these goals.

Many in Congress have urged withdrawing or conditioning MFN renewal as a means of forcing China to respond favorably to our concerns. We are convinced that MFN withdrawal would instead undercut our ability to achieve these goals. We advocate a more selective, targeted application of pressure, instead of imposing broad, blunt sanctions on everyone in China, punishing equally the forces of positive change, entrepreneurs and ideological hardliners.

Our targeted approach has succeeded in setting the agenda in our relations with China that focuses on human rights, arms control, and trade issues--issues that Congress is also deeply concerned about. Withdrawing MFN (or attaching unattainable conditions) would undermine the foundation on which the process of engagement was built. If we shut down our dialogue with Beijing on these issues, we remove an important incentive for China to respond to our concerns.

I know that Congress is well informed about what China has done that has fallen short of our expectations. I hope I can persuade you to look with an open mind at what China has done to meet our objectives as well. In every area of concern we have with China, our continued strategy combining sanctions and diplomatic engagement has leveraged some favorable action from Beijing. The Chinese support of the UN in the Persian Gulf is a prominent example, as is the initiation of human rights dialogues with us and with other Western countries. I have enclosed material that elaborates on these points.

The Honorable
George Mitchell,
United States Senate.

Make no mistake, the Administration is not easing its pressure on China. We have had sanctions in place since the brutal assault on Tiananmen, have imposed some since then, and are prepared to take further action to deal with new issues which may arise. We already have in place legal authorities to selectively target those practices in China that we find abhorrent, especially in the areas of human rights, nonproliferation, and trade. I urge you to read carefully the enclosed fact sheets that demonstrate ours is a determined, principled approach, not clouded by illusion or wishful thinking, and indeed goes beyond actions taken by other Western democracies.

The point I want to leave with you is that we are working toward the same objective: like you, we want to see across the board improvement in our relations with China on the basis of demonstrated and genuine Chinese commitments to international standards shared by all civilized nations. We will continue to advance our interests and ideals as we pursue a process of engagement with China designed to elicit progress toward our objectives: adherence to international standards on nonproliferation, free and fair trade, broader reform, and respect for human rights throughout China. Most importantly, renewal of MFN is essential to maintaining America's moral stake in promoting the process of economic and political reform in China.

Sincerely,



James A. Baker, III

Enclosures:

1. President's Memorial Day speech
2. Fact sheets on MFN

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	8.6
Others	2.96	1.21	1.27	1.39	6.84	18.6

SECMEC 1692

DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, SOUTH CAROLINA
J. BENNETT JOHNSTON, LOUISIANA
QUENTIN N. BURDICK, NORTH DAKOTA
PATRICK J. LEAHY, VERMONT
JIM SASSER, TENNESSEE
DENNIS DECONCINI, ARIZONA
DALE BUMPERS, ARKANSAS
FRANK R. LAUTENBERG, NEW JERSEY
TOM HARKIN, IOWA
BARBARA A. MIKULSKI, MARYLAND
HARRY REID, NEVADA
BROCK ADAMS, WASHINGTON
WYCHE FOWLER, JR., GEORGIA
J. ROBERT KERREY, NEBRASKA

MARK O. HATFIELD, OREGON
TED STEVENS, ALASKA
JAMES A. MCCLURE, IDAHO
JAKE GARN, UTAH
THAD COCHRAN, MISSISSIPPI
ROBERT W. KASTEN, JR., WISCONSIN
ALFONSE M. D'AMATO, NEW YORK
WARREN RUDMAN, NEW HAMPSHIRE
ARLEN SPECTER, PENNSYLVANIA
PETE V. DOMENICI, NEW MEXICO
CHARLES E. GRASSLEY, IOWA
DON NICKLES, OKLAHOMA
PHIL GRAMM, TEXAS

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025

JAMES H. ENGLISH, STAFF DIRECTOR
J. KEITH KENNEDY, MINORITY STAFF DIRECTOR

July 18, 1991

Dear Colleague:

When the Senate considers S.1367, the China Most Favored Nation bill, we will offer an amendment establishing an additional condition for the granting of MFN status.

Our amendment states that before MFN trade benefits can be extended to the People's Republic, the President must certify to the Congress that the PRC government does not support or administer any program of coercive abortion or involuntary sterilization. This provision was added to the Pelosi China MFN bill, which was recently approved in the House of Representatives.

For several years, there have been reports from the PRC that, as part of China's family planning efforts, women have been physically forced to submit to abortions and sterilization. If true, these reports represent a repugnant policy and a gross abuse of human rights.

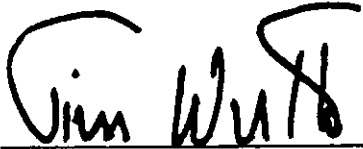
This year's State Department human rights report on China says: "Physical compulsion to submit to abortion or sterilization is not authorized but continues to occur as officials strive to meet population targets. Reports of forced abortions and sterilizations continue, though well below the levels of the early 1980's. While recognizing that abuses occur, officials maintain that China does not condone forced abortion or sterilization and that abuses by local officials are punished. They admit, however, that punishment is rare and have yet to provide documentation of any punishments."

In recent years the Congress has approved legislation to fund the United Nations Population Fund (UNFPA), which maintains an office in China, but that legislation has been vetoed. UNFPA plays no role in abortions--forced or voluntary--and the Congress has made sure that no UNFPA funds would be spent in China as a result of the U.S. contribution. Nevertheless, President Bush has vetoed the foreign aid bill over this provision, and he and other opponents of UNFPA funding have cited the alleged Chinese practice of forced abortions and sterilizations.

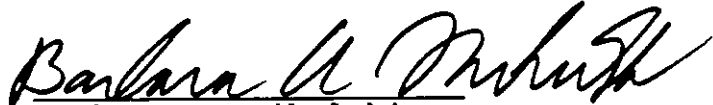
If these practices are occurring as the official policy of the central Chinese government, then we believe it would be immoral and irresponsible for the U.S. to extend MFN benefits.

We hope you will support our amendment. If you would like to cosponsor, please have your staff call Mark Mahaney (Sen. Mikulski) at x44654 or David Harwood (Sen. Wirth) at x45852.

Sincerely,



Timothy E. Wirth



Barbara A. Mikulski

AMENDMENT NO. _____

Calendar No. _____

Purpose: To require the President to undertake efforts to ensure that other countries impose trade restrictions against China if restrictions are imposed by the United States.

IN THE SENATE OF THE UNITED STATES—102d Cong., 1st Sess.

S. 1367

To extend to the People's Republic of China renewal of nondiscriminatory (most-favored-nation) treatment until 1992 provided certain conditions are met.

Referred to the Committee on _____
and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. KERREY

Viz:

1 At the appropriate place, insert the following new sec-
2 tion:

3 SEC. ____ SANCTIONS BY OTHER COUNTRIES.

4 If, pursuant to this Act, the People's Republic of
5 China is denied nondiscriminatory (most-favored-nation)
6 treatment, or such treatment is terminated, the President
7 shall immediately undertake efforts to ensure that members
8 of the General Agreement on Tariffs and Trade take simi-
9 lar action with respect to the People's Republic of China.

United States Senate

WASHINGTON, DC 20510

RECEIVED
91 JUL 11 PM 10:07
OFFICE OF THE CLERK

July 11, 1991

CHINA-MFN

Dear Colleague:

When the Senate considers S. 1367, providing conditional extension of most favored nation (MFN) status for China, I intend to offer an amendment requiring the President to seek the cooperation of other nations in imposing similar sanctions against China if the United States revokes China's MFN treatment.

The purpose of my amendment (see reverse) is to help ensure that the United States does not "go it alone" in imposing trade sanctions against China. By enlisting an international response to the policies of the Chinese government, U.S. policy is made more effective, and the burden of enforcing that policy does not fall disproportionately on U.S. businesses.

I urge you to join me in ensuring that any action by the United States to impose sanctions against the Chinese is taken in concert with other trading nations.

If your staff has any questions regarding my amendment, please have them contact Tim Galvin at 4-6551.

Sincerely,



J. Robert Kerrey

(see reverse)

DANIEL K INOUE, HAWAII
ERNEST F MOLLINGS, SOUTH CAROLINA
J BENNETT JOHNSTON, LOUISIANA
QUENTIN N BURDICK, NORTH DAKOTA
PATRICK J LEAHY, VERMONT
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J KEITH KENNEDY, MINORITY STAFF DIRECTOR

cc: SB, JW, AC

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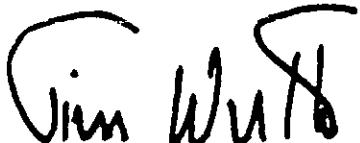
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Timothy E. Wirth



Barbara A. Mikulski

Kerrey Amdt

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Calendar No. _____

Purpose: To require the President to undertake efforts to ensure that other countries impose trade restrictions against China if restrictions are imposed by the United States.

IN THE SENATE OF THE UNITED STATES—102d Cong., 1st Sess.

S. 1367

To extend to the People's Republic of China renewal of nondiscriminatory (most-favored-nation) treatment until 1992 provided certain conditions are met.

Referred to the Committee on _____
and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. KERREY

Viz:

1 At the appropriate place, insert the following new sec-

2 tion:

3 SEC. ____ SANCTIONS BY OTHER COUNTRIES.

4 If, pursuant to this Act, the People's Republic of
5 China is denied nondiscriminatory (most-favored-nation)
6 treatment, or such treatment is terminated, the President
7 shall immediately undertake efforts to ensure that members
8 of the General Agreement on Tariffs and Trade take simi-
9 lar action with respect to the People's Republic of China.

American Council for Free Asia

Chairman
Gary Louis Jarmin
President for Non-Consultants

Advisory Council
(Partial Listing)
National Security Advisors
Council Chairman
Major General John R. Singlaub

Members of Congress
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Rep. Trent Lott (Mississippi)
Sen. Steve Symms (Idaho)

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Daniel Lyons
Terry Norton
Prof. Henry Panizza
Prof. Edward J. Rozek
Hon. William F. Simon
Prof. Hideo Sivas
Hon. Charles Wilson

MEMORANDUM

TO: DOUG PAAL/JIM DYER

FROM: GARY L. JARMIN

DATE: 24 JULY 1991

SUBJECT: ACFA MFN LOBBYING REPORT

In light of yesterday's vote on the Mitchell bill, I guess we all deserve a pat on the back for a job well done. I'm glad the American Council for Free Asia was able to help out.

For the record, ACFA spent over almost \$30,000 to generate roughly 3,000 mailgrams to key, targeted Senators. We are now urging our grass-roots contacts to concentrate on writing the 44 Senators who supported the President to thank them for their vote and urging them to stand firm on this issue.

Don't hesitate to contact me if we can be of any additional assistance. We stand ready to help whenever possible.

GLJ/tdd

ACFA

THE WHITE HOUSE

WASHINGTON

July 19, 1991

Dear Senator Baucus:

I appreciated receiving your views on the importance of renewing China's most-favored-nation (MFN) trade status while also seeking to achieve progress with the Chinese on issues of vital concern to the American people. We clearly share the same goals. We want to see China return to the path of reform, show greater respect for human rights, adhere to international norms on weapons sales, and practice fair trade. China should contribute to international stability and not detract from it.

You rightly note that withdrawing MFN would hurt not only Americans but also the people of Hong Kong and the millions in China who are working for progressive change. Continuing MFN is essential to protect American consumers and exporters, and to support the economic forces that have been driving reform in China for more than a decade. It is no accident that the process of reform accelerated with the increase in foreign businesses operating in that nation. Those who would end political and economic reform in China have the most to gain if MFN were withdrawn. It is the economic forces pressing for the loosening of state control and increased personal freedom that would suffer the most. Other losers would be the thousands of American workers and farmers who together produced in 1990 almost \$5 billion in exports to China.

Since we started the process of normalizing contacts with China in the 1970s, there has been strong bipartisan support for the U.S.-China relationship. Building on the three U.S.-China communiques, U.S. interaction with the government and people of China has produced demonstrable progress. That interaction must continue despite the recent severe setbacks. Nevertheless, I support the view that strong measures are needed to address our concerns in China and have not hesitated to use them in a targeted fashion. To underscore our deep dismay about human rights violations, I have kept in place a number of sanctions since the Tiananmen Square crackdown which have affected arms sales, high-level contacts, U.S. economic programs and U.S. support for multilateral development bank lending to China.

The U.S. is currently the only nation maintaining its Tiananmen sanctions and refusing to normalize relations until China makes substantial progress on human rights. For example, while all our allies and other World Bank members have supported virtually all of the last sixteen World Bank loans to China, we have declined

to support seven because the loans would not serve basic human needs.

At the London Summit, we raised China's human rights practices with our G-7 allies and encouraged them to continue to stress to China's leaders, as we have repeatedly, the importance that democratic governments attach to human rights. We made clear that the U.S. will continue its policy of supporting only those multilateral development loans for China that serve basic human needs (BHN), and our view that any non-BHN lending to China help to promote market-oriented economic reform.

To advance our nonproliferation objectives, I recently authorized a number of steps aimed at engaging the Chinese on their weapons transfer policies and making clear our dissatisfaction with transfers that contribute to regional instability. The Under Secretary of State for International Security Affairs recently traveled to Beijing for a detailed discussion of nonproliferation issues, including our specific concerns about Chinese exports. He pressed for China's adherence to the Nuclear Nonproliferation Treaty and the Missile Technology Control Regime, actions I called for in my commencement speech at Yale University on May 27. We are pleased with the constructive role China played in the July 8-9 Middle East arms control talks in Paris. The Chinese endorsed all the key objectives of my Middle East arms control initiative (such as efforts to freeze and ultimately eliminate surface-to-surface missiles and block the production and acquisition of nuclear useable material). The Chinese also agreed to work rapidly in follow-on meetings to flesh out the broad agreements reached in Paris.

At the same time, I have also taken measures to emphasize to China that the U.S. is concerned about reports of destabilizing missile-related transfers. In April, I rejected requests for licenses to export satellite components for a Chinese communications project because of the involvement of Chinese companies in unacceptable missile equipment transfers. Just recently, I approved trade sanctions against two Chinese companies for that same reason. In addition, I directed that no further licenses of high-speed computers and no further exports of satellites to China be authorized until our concerns that China adhere to accepted international nonproliferation standards are satisfactorily addressed. The U.S. will be coordinating with other countries in order that these measures not be undercut. Our experience has demonstrated that such consultations will lead to effective, multilateral technology transfer restrictions.

I have also instructed U.S. agencies to press vigorously our concerns about Chinese unfair trading practices. In April, I directed the U.S. Trade Representative to identify China as a priority foreign country under the Special 301 provisions of the Trade Act for failing to protect U.S. intellectual property

rights. If China does not make real progress during the 301 investigation, trade action will follow. Beyond intellectual property protection, my Administration has invited senior Chinese trade officials to Washington in August for continuation of consultations begun in June regarding access for U.S. products to the Chinese market. If these talks fail to produce Chinese commitments to take substantial measures to improve market access, the Administration will self-initiate further action under Section 301 of our trade laws.

We are strictly enforcing the terms of our textile agreement with China and have already made charges against China's quota because of illegal textile shipments through third countries totalling approximately \$85 million so far. Following consultations in July, we expect to make additional charges. If China does not exert effective control over these illegal shipments, we are prepared to take additional action against China.

Charges that China exports goods produced with prison labor are a matter of serious concern. The Customs Service is investigating these charges. In addition, we have obtained a firm high-level commitment to prevent the sale of prison labor products to the United States. We will continue to monitor China's behavior in this area closely and will strictly enforce relevant legislation concerning prison labor exports. In particular, I am ordering the following additional measures: The Department of State will seek to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific imports from China were produced by prison labor. Pending negotiation of this agreement, the U.S. Customs Service will deny entry to products imported from China when there is reasonable indication that the products were made by prison labor. The denial will continue until the Chinese Government or the Chinese exporter provides credible evidence that the products were not produced by prison labor.

I am also instructing the U.S. Customs Service to identify an office to receive information on prison labor exports and establish procedures for the prompt investigation of reports of prison labor exports from interested parties. Additional customs officials will be directed to identify prison labor exports and aid in uncovering illegal textile transshipments.

Although it is not directly related to China's MFN status, I share your interest in Taiwan's accession to the GATT. As a major trading economy, Taiwan can make an important contribution to the global trade system through responsible GATT participation. The U.S. has a firm position of supporting the accession of Taiwan on terms acceptable to GATT contracting parties. The United States will begin to work actively with other contracting parties to resolve in a favorable manner the issues relating to Taiwan's GATT accession. Because China, our

tenth largest trading partner, could also make an important contribution to the global trading system, I will seek to have the Chinese Government take steps on trade reform so that China's GATT application can advance and its trade practices can be brought under GATT disciplines through the Working Party formed for China in 1987. U.S. support for Taiwan's accession to GATT as a customs territory should in no way be interpreted as a departure from the long-standing policy of five administrations which acknowledges the Chinese position that there is only one China, and that Taiwan is part of China.

In sum, therefore, I am prepared to address the concerns you and your colleagues have identified, and I am doing so. But discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to American interests and would render futile pursuit of the initiatives I have outlined, which are discussed in greater detail in the attachments. Working together, I believe we will best protect America's interests by remaining engaged with China and the Chinese people.

Sincerely,



P.S. At the recently concluded G-7 Summit in London, the leaders of these Western Democracies all urged renewal of MFN.

Attachments:

- Part I - Human Rights
- Part II - Nonproliferation
- Part III - Trade and Economic Issues

The Honorable Max S. Baucus
United States Senate
Washington, D.C. 20510

PART I: HUMAN RIGHTS

Human rights concerns have been at the heart of our relationship with the PRC since the tragic events of June 1989. Every high-level meeting since that time has at least touched on human rights issues, and several -- such as the December 1990 visit to China by Assistant Secretary Schifter -- have been devoted exclusively to them. We have consistently stressed to the Chinese leadership that there can be no return to the kind of relationship we enjoyed before 1989 without substantial improvements in China's human rights practices.

Our overall approach on human rights issues has consisted of:

Public expression of concern

- President Bush condemned the brutal suppression of demonstrations in Tiananmen Square in June 1989, the first world leader to do so. He declared May 13, 1990 a National Day in support of Freedom and Human Rights in commemoration of the 1989 demonstrations, and issued another statement to mark the anniversary of the crackdown in 1991.
- In our human rights reports for 1989 and 1990, we were fair but hard-hitting, and as accurate as available information would allow. These reports have drawn high praise from human rights groups, and harsh condemnations from the Chinese government.
- The State Department issued a statement on January 9, 1991 condemning the trials of nonviolent dissidents.
- In April 1991 the President met the Dalai Lama at the White House to demonstrate our respect for His Holiness' nonviolent approach to conflict resolution and our concern for human rights problems in Tibet.

Suspension of bilateral programs

On June 6 and June 20, 1989, the President announced the suspension of a number of bilateral programs and changes in U.S. approach to multilateral issues until the human rights climate in China improved. Those suspensions generally remain in effect.

- A multitude of high-level exchange visits that would normally have taken place since 1989 have been canceled. Only a very limited number of visits at and above Assistant Secretary level have been approved on a case-by-case basis, and only when they addressed issues of key concern to the United States, e.g., like human rights, nonproliferation, unfair trade practices, and narcotics.
- Military exchange visits have been suspended completely.

- Work on several existing military equipment and technology projects has been suspended indefinitely.
- We have stopped the transfer of military or dual-use equipment or technology to Chinese military and security services.
- The U.S. sought to postpone all multilateral development bank loans to China from June 1989 to January 1990. Since then, we have supported only those loans that serve the basic human needs of the Chinese people.
- We have suspended grants, loans and insurance guarantees to China under the Trade and Development Program and OPIC.
- We have worked through COCOM to suspend planned liberalization of export controls to China.

Engagement in dialogue

Through the few high-level visits that have been authorized, and through regular diplomatic channels, we have engaged the Chinese government in an unprecedented continuing dialogue on a wide range of human rights issues.

- The Scowcroft-Eagleburger missions of July and December 1989 were devoted primarily to laying out our human rights concerns and suggesting steps the Chinese could take to address them.
- During Chinese Foreign Minister Qian's visit to Washington in November 1990, President Bush and Secretary Baker reiterated the need for progress on human rights, and stressed that human rights is a cornerstone of American foreign policy.
- Assistant Secretary Schifter visited China in December 1990, the first time our top human rights official has done so. In sixteen hours of intense discussions with senior Chinese officials, he spelled out in detail our human rights concerns in a wide range of areas including accounting of detainees, release of political prisoners, denial of due process and fair and open trials, treatment of prisoners, divergence of Chinese law from international standards, respect for freedom of religion, abusive implementation of family planning regulations, and human rights problems in Tibet. He delivered a list of 151 representative cases of reported political incarceration, and asked Chinese authorities to clarify the status of the cases and release those whose imprisonment violated international norms. He suggested changes in Chinese laws and judicial processes that would bring them into conformity with international standards.

- Under Secretary Kimmitt in May 1991 reiterated many of the points made by Assistant Secretary Schifter, and called on the Chinese government to declare an amnesty for all those imprisoned for nonviolent political activities. He also urged the Chinese to implement effectively their claimed prohibition on export of prison labor products.

Results of actions

Most importantly, the Chinese government has acknowledged the legitimacy of human rights as a subject of bilateral discussion, both with us and with other concerned governments. they received a Congressional delegation devoted exclusively to human rights concerns in March 1991, and agreed to receive another later this year. They also agreed to receive human rights delegations to be sent by the governments of France and Australia. In addition, they have taken a number of modest but positive steps to improve the human rights situation in China.

- Martial law was lifted in Beijing in January 1990 and in Lhasa four months later. No part of China is currently subject to martial law.
- Most of those detained after the Tiananmen tragedy were released by the end of 1989. Chinese authorities announced the release of nearly 1000 more detainees in 1990, and about 70 have been released so far in 1991. Officials claim that only 21 still await trial detention in Beijing, and at least one of these -- labor leader Han Dongfang -- has been released for medical treatment.
- While at least 30 persons have been convicted on political charges since the beginning of the year, the sentences meted out to them were generally less severe than those imposed on similar charges in previous years. Those released without further punishment included prominent dissidents such as essayist Liu Xiaobo, journalist Zhang Weiguo, playwright Wang Peigong, and legal scholar Chen Xiaoping.
- Leading dissident Fang Lizhi and his wife, who had obtained refuge in the U.S. Embassy in Beijing for over a year, were allowed to leave China in June 1990, and are now at Princeton.
- Most investigations of those involved in the 1989 protests have ended, and most of our Chinese contacts report that the oppressive atmosphere of 1989 has lifted significantly.
- The Chinese have ceased the most odious forms of harassment of Chinese students and scholars in the U.S.; harassment was a serious problem in 1989 and early 1990.
- Relatives of many, though not all, overseas dissidents have been allowed to leave China and join them abroad. In some

of the remaining cases that we have raised with Chinese officials, passports have subsequently been issued.

- Several released dissidents, including Tiananmen hunger striker Gao Xin and former Arizona State student Yang Wei, have been allowed to leave the country.
- Chinese authorities have undertaken to stop the export to the U.S. of products made in Chinese prisons. We will continue to monitor this situation closely, but it appears that the Chinese government is taking increasingly specific steps to enforce their prohibition on export of these products.
- In response to concerns expressed by Administration officials and Members of Congress, the Chinese have provided useful new information on the status of persons reported detained for religious activities.
- Economic reforms have resumed, in some cases matching or exceeding levels reached before 1989. Some limited political reforms, in important but relatively noncontroversial areas such as the personnel system, have continued. An Administrative Procedure Law that became effective in October 1990 for the first time enables Chinese citizens to sue abusive officials.

There are indications that further progress may be in the offing. We are continuing to press the Chinese government to release all remaining detainees, to commute the sentences of those nonviolent dissidents already convicted, and to allow the departure of the remaining relatives of overseas dissidents who wish to leave. We are hopeful that a combination of dialogue and specifically targeted pressure will lead to further movement on these and other remaining issues of concern. And in the longer term, we are confident that the momentum toward greater freedom and democratization in China, built up during the decade of reforms and dramatically reflected in the 1989 demonstrations, will prove irreversible.

PART II: ADMINISTRATION'S ACTIONS WITH RESPECT TO PROLIFERATION CONCERNS

The United States is engaged in a high-level dialogue with the Chinese that began early in our relationship. Looking at the broad trends in China's nonproliferation policy since normalization in 1979, it is clear that our dialogue has paid off in important areas, demonstrated by China's evolution toward international consensus on nonproliferation in areas of great importance to us. For example, China, which once held an antagonistic view of multilateral controls on nuclear exports, joined the IAEA in 1984 and sent observers to the Nuclear Nonproliferation Treaty Review Conference in 1990.

Middle East/South Asia

China's support for the Middle East arms control initiative is another case in point. China's participation in the initiative is a positive step that will strengthen international nonproliferation efforts and indicates China's resolve to contribute to efforts to attain stability in the Middle East. In addition, China's willingness to participate in multilateral efforts to reduce tension in South Asia will be crucial to establishing stability in that volatile region.

Moreover, we have seen Chinese arms sales restraint in some areas where we have vital interests. For example, to the best of our knowledge, apart from the 1987/88 sale of missiles to Saudi Arabia, China has not delivered medium-range missiles to the Middle East. It is clear that in other specific cases China has taken international concerns into account and declined proposed missile exports to prospective buyers.

Underscoring Our Concerns

It is because serious concerns remain that we want to maintain a constructive nonproliferation dialogue with Beijing. We do not intend to ignore current problems, but isolating China by dismantling the framework for our relations is not the way to advance our nonproliferation objectives.

We have the means available to underscore our concerns where there are differences in our approaches to nonproliferation and we have used these legislative and executive branch tools. For example, we have imposed trade sanctions mandated by the National Defense Authorization Act on Chinese entities involved in missile-related activities. We have also announced the Administration's decision that, pending progress toward our nonproliferation objectives, we will not license high speed computers and will not issue further waivers of legislative restrictions on satellite exports. These new sanctions have been imposed in addition to the existing sanctions announced immediately following the June 1989 assault on Tiananmen and amplified by Congress in the Department of State Authorization

Act for FY 1990-1991. Moreover, we have not certified China under the bilateral agreement for nuclear cooperation that took effect in 1985.

Our policy mix of sanctions and cooperation at any given time is necessarily dependent on Chinese behavior. We are encouraged by China's indication in June that it is reviewing its policies with respect to Missile Technology Control Regime (MTCR) and the NPT. We seek China's adherence to the NPT and the MTCR guidelines and will encourage the Chinese to take concrete steps toward adherence to the key multilateral standards for international behavior established by these institutions. The Administration will continue to use the legislative authority that already exists and will take resolute action if the Chinese do not address favorably our nonproliferation concerns.

PART III: TRADE AND ECONOMIC ISSUES

The Administration is committed to achieving with China the same goals that have guided our trade policy with all other countries. We seek open markets and the opportunity for U.S. firms and their products to compete on fair and equal terms. To achieve these goals, and realize the principles of equality, mutual benefit and non-discrimination set forth in the U.S.-China Bilateral Trade Agreement, this Administration has pursued a policy of negotiation and engagement on trade issues with China. In particular, the Administration has sought to improve U.S. access to China's marketplace; to bolster Chinese protection of intellectual property; to end fraudulent practices by Chinese textile exporters using false country of origin declarations; and, to induce Beijing to undertake the economic and trade reforms required for membership in the GATT.

Reciprocal MFN tariff treatment underpins our ability to work constructively with the PRC. China's desire to retain access to the U.S. market has enabled us to engage Chinese leaders even during periods of tension. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests and erode our ability to influence China's behavior on key trade issues.

The Past Decade of Bilateral Trade Relations

After decades of adhering to an import-substitution strategy that focused on minimizing China's reliance on outside sources of machinery and equipment, China began in the 1980's to seek outside sources of these goods. It also has increasingly drawn on foreign technology, expertise, and funds by actively encouraging joint ventures.

China's opening to the outside world has helped transform its economy, bolstering reform-oriented sectors that are not directly controlled by the central government. For example, the state sector now produces just over half of China's industrial output; in 1978, its share was 78 percent. China's dynamic rural industries, which are privately and collectively owned, have burgeoned. There are 30,000 foreign-invested ventures now in China, with a total contracted value of \$40 billion. The impact of China's open door has been particularly pronounced in the southern and coastal provinces, where 90 percent of the foreign investment and more than three-fourths of China's trade activities are located. This region, in turn, has become the primary engine of economic reform in China largely as a result of the introduction of market concepts to Chinese employees of joint ventures and to citizens engaging in commercial exchanges with the West. The economic autonomy fostered by this interaction contributes to increased political and even individual self-determination.

The United States has been a vital partner in this transformation. Following Congressional approval of the bilateral trade agreement, the United States and China established formal trade relations and reciprocally granted most-favored-nation (MFN) status in 1980. Growth in our commercial ties has helped to change China and to bring it into the global trading system. Since the resumption of normal trade relations, U.S.-China two-way trade has increased almost 770 percent, from \$2.3 billion in 1979 to over \$20 billion last year.

- We are now China's second-largest trading partner and its largest export market.
- China is our tenth-largest trade partner, up from fifteenth in 1981.
- Over 1,000 U.S. firms have invested more than \$4 billion in China and another \$5 billion in Hong Kong related primarily to trade with the PRC.
- In 1990, the United States exported \$4.8 billion worth of goods to China, including:
 - \$749 million worth of aircraft
 - \$544 million worth of fertilizer
 - \$512 million worth of grain
 - \$281 million worth of cotton yarn and fabric
 - \$273 million worth of chemicals
 - \$264 million worth of electric machinery
 - \$238 million worth of wood and wood pulp
 - \$227 million worth of scientific instruments.

Commercial relations with the United States have exerted positive influences on China's business and economic practices since 1980. China has shifted away from total reliance on a strongly centralized economy, shown greater tolerance for experimentation with market mechanisms to regulate its domestic economy, and decentralized and liberalized its foreign trade practices.

Regression in China's Trade Policies

China's opening to the outside world has not been smooth. Over the past decade, attempts to accelerate the implementation of market-oriented reforms have been followed by Beijing's recentralization of control, as concern about the country's ballooning trade deficit led Beijing to step in to regain some of the trade authority it had relinquished.

Moreover, throughout the period since the normalization of trade relations and the granting of reciprocal most-favored-nation trading status in 1980, China's web of barriers to imports has made it difficult for many U.S. exporters to gain access to the Chinese market. U.S. firms have also had difficulty securing protection for their intellectual property.

U.S. trade negotiators have long been engaged with the Chinese Government, both in bilateral negotiations and in multilateral consultations at the GATT held to review China's application for membership. We have sought to ensure that bilateral commercial relations develop in accord with the principles that underlie our bilateral trade agreement: equality; mutual benefit; and nondiscrimination. From 1979 through 1987, Chinese authorities made some progress in reducing nontariff barriers to imports, in improving transparency, and in protecting the intellectual property of foreigners.

This trend has been reversed over the last three years.

- Since 1988, Chinese trade policies and practices have become more protectionist, nontariff barriers to imports have proliferated, and the trade system has become less transparent. These policies undoubtedly contributed to a 17 percent decline in U.S. sales to China in 1990. China was the only major foreign market for U.S. goods and services in which our exports declined in 1990.
- Despite intensive bilateral negotiations with Chinese authorities since the USTR in 1989 placed China on the "priority watch list" of countries providing inadequate intellectual property protection--including three rounds of meetings over the past five months--China has failed to live up to the commitments contained in the bilateral Memorandum of Understanding (MOU) signed in May 1989.

At the same time, other problems have developed in our bilateral trade relationship. For example, to bypass U.S. textile and apparel quotas, Chinese exporters have increasingly resorted to shipping these products to the United States via third countries using false invoices and counterfeit visas. Also of concern to us has been the apparent lapse in China's commitment to economic and trade reforms that would bring the country in line with the GATT's free-trade principles. China's reassertion of central control over the past few years has called into question its willingness and ability to undertake the obligations that would be required of China as a contracting party to the GATT.

Steps the U.S. Government Has Taken and Will Take to Address Bilateral Trade Problems

In six key areas of our bilateral trade and economic relations, the Administration has taken steps to resolve trade problems. We are prepared to do more.

On Market Access

- Beginning in the fall of 1990, the Administration resumed sub-cabinet level meetings with the Chinese, that had been suspended since June 1989, to secure Chinese actions to reverse the growing list of new protectionist measures.

- In April 1991, the Administration formally set in motion a market access initiative that continued with the visit to Beijing, in mid-June, of an interagency delegation to discuss market access issues. In meetings with senior Chinese officials, U.S. Government officials raised nine types of market access barriers, including: the lack of transparency in rules and regulations; the expansion of import licensing requirements; the use of import substitution policies; the proliferation of import bans and quotas; the growth of standards, testing, and certification requirements, including discriminatory "quality standards" procedures for imports; the high level of many import tariffs; the unnecessary use of certain phytosanitary regulations; the uncertainties regarding government procurement and tendering regulations; and the lack of information regarding China's major development projects.

- The Administration has proposed holding another round of market access consultations in August 1991. If that round of negotiations fails to yield substantial commitments from the Chinese authorities to dismantle market access barriers, the Administration will self-initiate Section 301 action to address those barriers the removal of which offers the most potential for achieving U.S. trade policy objectives and increasing U.S. exports.

On Intellectual Property Protection

- On April 26, 1991, USTR identified the PRC as a priority foreign country that denies adequate and effective protection of intellectual property rights. Accordingly, on May 26, 1991 USTR initiated a Special Section 301 investigation on the basis of four problem areas: (1) inadequate copyright protection, (2) inadequate patent protection, (3) inadequate trade secret protection and (4) ineffective enforcement of trademarks. Consultations with the Chinese are ongoing. The first round of consultations under the Section 301 investigation occurred in mid-June and a second has been proposed for August.

- The deadline for making a determination under Section 301 is November 26, 1991. This may be extended for three months if China is making substantial progress in drafting or implementing measures that will provide adequate and effective protection of U.S. intellectual property rights. At that time, the USTR must determine whether the acts, policies and practices of the PRC are actionable under Section 301 and what retaliatory action, if any, is appropriate.

- If the consultations fail to produce adequate and effective protection of intellectual property rights, the Administration will take retaliatory action.

On Textile Transhipments

- The U.S. Customs Service has been vigilant in documenting cases of Chinese textile transhipments over the past year.
- In August 1990, USTR held consultations with Chinese authorities on the transhipment issue. Additional consultations took place in November 1990, March 1991, and May 1991.
- The U.S. Government "charged" China's quotas for goods that were sent to the United States under false country of origin declarations valued at over \$85 million.
- China has begun to take actions to curtail textile fraud since the December charges were made. For example, it issued regulations prohibiting reexports through a third country to countries that have signed textile agreements with China. Further, the Chinese Government has issued provisions for the punishment of those who violate the regulations.
- The Administration has prepared more charges valued at about \$14 million that we anticipate will be levied after consultations with China next month.
- The Administration will increase the number of U.S. Customs officials dedicated to investigating circumvention.
- If transhipment persists, we will be prepared to take additional action against China.

On Forced Labor

- The importation of goods produced with forced, convict or indentured labor is prohibited by 19 USC Section 1307, which also directs the Secretary of the Treasury to prescribe regulations for enforcement of the provision. The Secretary of the Treasury, under 19 CFR Section 12.42, has delegated to the Commissioner of Customs, authority to determine that a class of goods is the product of forced labor and exclude those goods.
- Customs has been investigating imports alleged to be the product of forced labor in China. Customs has interviewed emigres about forced labor practices in China. Customs is also analyzing import samples to determine if they match the descriptions provided by the emigres and others. Additional special agents have

been detailed to Hong Kong to assist in the investigation.

- Although the letter from Senator Baucus and fourteen co-signers did not specifically address the issue of prison labor imports, appropriate action is called for to fulfill the intent of existing law. The Administration therefore proposes to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific products exports to the U.S. are being produced by prison labor.
- Pending negotiation of the MOU, Customs will temporarily embargo specific products from China when there is reasonable indication that they are made by prison labor. Embargoes will be lifted only after the Chinese Government or the Chinese exporter provides credible evidence that the products are not produced by prison labor.

Multilateral Lending to China

- The G-7 consensus, led by the United States, was successful in prohibiting all MDB lending to China from June 1989 to February 1990 in response to the international outcry against the crackdown by the Chinese authorities at Tiananmen Square.
- From February 1990 to July 1990, the G-7 consensus supported a gradual resumption of World Bank lending to China for projects that clearly met basic human needs (BHN). The consensus held firm and actively prohibited other loans from Board consideration. Only five loans (totalling \$590 million) were approved in WBFY 1990. This is substantially less than pre-Tiananmen Square levels of World Bank commitments to China, which were \$1.4 billion in WBFY 1988 and \$1.3 billion in WBFY 1989.
- At the Houston Summit in July 1990, several G-7 countries decided that China's long-term development needs argued for lending outside the BHN limits favored by the United States. Accordingly, the G-7 Houston Summit Declaration of July 1990 on MDB lending to China expanded the boundaries of permitted MDB lending to China to include loans which were environmentally beneficial or which supported market-oriented economic reform. Only BHN loans were considered by the World Bank Board until December 4, 1990 when the market oriented economic reform loan for Rural Industrial Technology was approved by the Board. On November 29, 1990, the ADB approved its first loan to China since Tiananmen Square, Agricultural Bank Project, which the U.S. did not support. Despite the approval of infrastructure project loans by the World Bank and the

Asian Development Bank, the U.S. has and will continue to withhold support on all loans that do not meet BHN criteria.

On GATT Accession

- Since China applied for GATT membership in July 1986, the United States has been a leading participant in the collective efforts of major GATT Contracting Parties to develop terms for China's GATT participation that will support the objectives of the GATT and will influence Chinese Government policies to become, over time, more compatible with the GATT framework for world trade.
- U.S. and other major GATT contracting parties' concerns about China's ability and willingness to live up to GATT obligations, particularly since June 1989, have stalled progress in the Working Party established to consider China's application for membership in the GATT.
- The Administration intends to continue to press Beijing to undertake trade and economic reforms so that its GATT application can advance and its trade practices be brought under GATT disciplines.
- At the same time, the Administration will begin to work actively with other GATT members to resolve in a favorable manner the issues relating to Taiwan's GATT accession. U.S. support for Taiwan's accession as a customs territory would be consistent both with GATT legal criteria and the "one-China" policy which acknowledges the Chinese position and has been adhered to by successive U.S. administrations.
- Taiwan's GATT accession would yield substantial trade and commercial benefits to the United States and to the international trading system.
- Taiwan has indicated that it is prepared to accede to the GATT as a developed economy, to bind virtually all its tariffs, and to join the major non-tariff measure GATT codes.

The Importance of MFN

As highlighted above, the Administration is aggressively seeking to resolve outstanding bilateral trade issues with the PRC. MFN underpins our ability to work constructively with the PRC. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests, and would render futile pursuit of the initiatives outlined above.

It would reduce our leverage in market-access, intellectual property rights protection, and other trade-related negotiations. China's desire to retain access to the U.S. market has enabled us

to engage Chinese leaders in consultations on bilateral and multilateral issues even during periods of tension. Because China is not a GATT member and not bound by GATT trade disciplines, it is especially important to have many levers that enable us to engage the Chinese on trade issues.

It would hurt U.S. exporters. If the United States rescinds China's MFN trading status, China will not only discontinue MFN tariff treatment for the United States, but would likely cease purchasing billions of dollars of U.S. wheat, aircraft, fertilizer, cotton yarn and fabric, wood and wood pulp, electric machinery, scientific equipment, and chemicals. Foreign competitors, whose goods would be subject to lower tariffs, would be quick to exploit our departure. Lost shares of China's market would not easily be regained even if MFN were restored at some future date.

It would hurt U.S. consumers. Tariffs on the 25 most important U.S. imports from China would rise from the present average tariff rate of 8.8 percent to an average rate of 50.5 percent. These increases would mean sharply higher prices for lower-end Chinese goods. The costs to U.S. consumers would be largely borne by poorer Americans, who are primary consumers of low-cost Chinese products.

It would damage America's reputation as a reliable trade partner. Our trade competitors will not join us in denying MFN status to China. Other Chinese trade partners, especially in Asia, urge that China's MFN status be retained.

It would hurt investors, businesses, and workers in Hong Kong. Loss of MFN would impede China's integration into the regional economy, a development crucial to regional stability particularly as we near the 1997 deadline for Hong Kong's reversion to Chinese sovereignty. It could cost over 43,000 jobs in Hong Kong and result in direct revenue losses of approximately \$1.2 billion dollars. Hong Kong's GDP growth could be curtailed by as much as two percent.

It would set back efforts to bring about meaningful economic reform in China. A disproportionate burden of the MFN denial would fall on the primary engine of economic reform in China--the economies of the southern and coastal provinces. In Guangdong province, for example, 40 percent of industrial output is produced for export, half of which goes to the United States. Sectors that fall outside of the direct control of the central government have been especially important to China's development as an exporter; one-third of China's exports currently come from rural (individual and collectively owned) industries and from foreign-invested ventures. The foreign ties these provinces and non-state-owned factories developed with the outside world prior to Beijing's reassertion of central control in mid-1989 enabled these provinces to weather the austerity program; without these foreign markets, Beijing's grip would have been all the tighter. As Beijing's influence over the regions and sectors most closely integrated into the global economy has diminished, these regions

and sectors have become increasingly sensitive to global economic conditions. Revocation of China's MFN trading status would cause unemployment to rise and factory losses to mount in export-producing regions.

Conclusion

Those who engineered the violence in China in June 1989 are unlikely to bear the economic costs associated with the denial of MFN. Instead, those who suffer would be American businesses and their employees, American consumers, and the people of Hong Kong and the progressive areas of China.

China's opening to the outside world over the past decade has accelerated growth in the non-state sectors of the economy; resulted in strong links between China's coastal regions and the global economy that have enabled this reformist region to weather Beijing's periodic efforts to reimpose central government control over economic activity; and introduced market concepts to a generation of Chinese managers involved in joint ventures, trade negotiations, and training in the West. For this process to continue, China's most-favored-nation treatment in the United States is essential.

JUL 22 (LEG. DAY JUL 8) 1991

(Date)

Roll Call Vote

Legislative

AAA

NO.

141

SUBJECT

Bingaman Amdt. 802

YEAS		NAYS
_____	Adams	_____
_____	Akaka	_____
_____	Baucus	_____
1	Bentsen	_____
_____	Biden	_____
2	Bingaman	_____
_____	Bond	_____
_____	Boren	+
_____	Bradley	_____
_____	Breaux	_____
_____	Brown	_____
_____	Bryan	_____
_____	Bumpers	_____
_____	Burdick	_____
_____	Burns	7
_____	Byrd	_____
_____	Chafee	_____
_____	Coats	_____
_____	Cochran	_____
_____	Cohen	_____
_____	Conrad	_____
_____	Craig	_____
_____	Cranston	_____
_____	D'Amato	_____
_____	Danforth	_____
_____	Daschle	+
_____	DeConcini	_____
_____	Dixon	_____
_____	Dodd	_____
_____	Dole	_____
_____	Domenici	_____
_____	Durenberger	+
_____	Exon	_____
_____	Ford	+
_____	Fowler	+
_____	Garn	_____
_____	Glenn	_____
_____	Gore	_____
_____	Gorton	_____
_____	Graham, Florida	_____
_____	Gramm, Texas	_____
_____	Grassley	_____
_____	Harkin	_____
_____	Hatch	_____

	Heflin	
	Helms	
	Hollings	
	Inouye	+
	Jeffords	+
	Johnston	
	Kassebaum	
	Kasten	
	Kennedy	
	Kerrey, Nebraska	
	Kerry, Massachusetts	
	Kohl	
	Lautenberg	
	Leahy	
	Levin	
	Lieberman	
	Lott	
	Lugar	
	Mack	
	McCain	
	McConnell	
3	Metzenbaum	
	Mikulski	
4	Mitchell	
	Moynihan	
	Murkowski	+
	Nickles	
	Nunn	
	Packwood	2
	Pell	+
	Pressler	+
	Pryor	
	Reid	
	Riegle	
	Robb	
	Rockefeller	+
	Roth	
5	Rudman	
	Sanford	
	Sarbanes	
	Sasser	
	Seymour	
	Shelby	
	Simon	
	Simpson	
	Smith	
	Specter	
	Stevens	
	Symms	
	Thurmond	
	Wallop	
	Warner	
	Wellstone	
	Wirth	
	Wofford	

AMENDMENT NO. _____

Calendar No. _____

Purpose: To provide a private cause of action and for treble damage for violations of the prohibition against importation of goods made with forced labor, and for other purposes.

IN THE SENATE OF THE UNITED STATES—102d Cong., 1st Sess.

S. 1367

To extend to the People's Republic of China renewal of nondiscriminatory (most-favored-nation) treatment until 1992 provided certain conditions are met.

Referred to the Committee on _____
and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. HELMS

Viz:

1 At the appropriate place in the bill, insert the follow-
2 ing new section:

3 SEC. __. ENFORCEMENT BY PRIVATE PERSONS OF PROHIBITION
4 AGAINST IMPORTATION OF CONVICT-MADE
5 GOODS.

6 Section 307 of the Tariff Act of 1930 (19 U.S.C.
7 1307) is amended—

8 (1) by striking "All goods" and inserting "(a)
9 IN GENERAL.—All goods";

1 (2) by striking “ ‘Forced Labor,’ ” and insert-
2 ing “(b) FORCED LABOR.—‘Forced Labor,’ ”; and

3 (3) by adding at the end thereof the following
4 new subsections:

5 “(c) PENALTIES.—(1) With respect to any violation of
6 subsection (a), an order under this section shall require the
7 person to pay a civil penalty of—

8 “(A) \$10,000 for one violation;

9 “(B) \$100,000 in the case of a person previous-
10 ly subject to one order under this section; or

11 “(C) \$1,000,000 in the case of a person previ-
12 ously subject to more than one order under this sec-
13 tion.

14 “(2)(A) Before imposing an order described in para-
15 graph (1) against a person for a violation of subsection (a),
16 the Secretary of the Treasury shall provide the person with
17 notice and, upon request made within a reasonable time (of
18 not less than 30 days, as established by the Secretary of the
19 Treasury) of the date of the notice, a hearing respecting the
20 violation.

21 “(B) Any hearing so requested shall be conducted
22 before an administrative law judge. The hearing shall be
23 conducted in accordance with the requirements of section
24 554 of title 5, United States Code. The hearing shall be
25 held at the nearest practicable place to the place where the

1 person resides or of the place where the alleged violation
2 occurred. If no hearing is so requested, the Secretary of the
3 Treasury's imposition of the order shall constitute a final
4 and unappealable order.

5 “(C) If the administrative law judge determines, upon
6 the preponderance of the evidence received, that a person
7 named in the complaint has violated subsection (a), the
8 administrative law judge shall state his findings of fact and
9 issue and cause to be served on such person an order de-
10 scribed in paragraph (1).

11 “(3) The decision and order of an administrative law
12 judge shall become the final agency decision and order of
13 the Secretary of the Treasury unless, within 30 days, the
14 Secretary of the Treasury modifies or vacates the decision
15 and order, in which case the decision and order of the Sec-
16 retary of the Treasury shall become a final order under this
17 subsection. The Secretary of the Treasury may not delegate
18 his authority under this paragraph.

19 “(4) A person adversely affected by a final order re-
20 specting an assessment may, within 45 days after the date
21 the final order is issued, file a petition in the Court of
22 Appeals for the appropriate circuit for review of the order.

23 “(5) If a person fails to comply with a final order
24 issued under this subsection against the person, the Attor-
25 ney General shall file a suit to seek compliance with the

1 order in any appropriate circuit court of the United States.
2 In any such suit, the validity and appropriateness of the
3 final order shall not be subject to review.

4 “(d) ENFORCEMENT BY PRIVATE PERSONS.—(1) The
5 prohibitions contained in subsection (a) may be enforced
6 by civil actions in appropriate United States district courts
7 without regard to the amount in controversy and in appro-
8 priate State or local courts of general jurisdiction. A civil
9 action shall be commenced within 1 year after the plaintiff
10 obtains knowledge that the alleged violation of subsection
11 (a) has occurred, or reasonably should have obtained such
12 knowledge, except that the court shall continue such civil
13 case brought pursuant to this section if an administrative
14 hearing pursuant to subsection (c)(2) has commenced and
15 is being diligently conducted so as to reach an expeditious
16 conclusion.

17 “(2)(A) Except as provided in paragraph (3)—

18 “(i) any person to whom any prohibited product
19 has been offered for purchase or in reasonable likeli-
20 hood will be offered for purchase, or

21 “(ii) any public interest group or human rights
22 organization,

23 may commence a civil suit on behalf of that person, group,
24 or organization—

1 “(I) to enjoin any person, including the United
2 States and any other governmental instrumentality or
3 agency (to the extent permitted by the 11th Amend-
4 ment to the Constitution), who is alleged to be in
5 violation of any provision of this title or regulation
6 issued under the authority of this title;

7 “(II) to compel the Secretary of the Treasury to
8 enforce the penalties set forth in or authorized pursu-
9 ant to subsection (c); or

10 “(III) against the Secretary of the Treasury
11 where there is an alleged failure of the Secretary to
12 perform any act or duty under subsection (a) which
13 is not discretionary with the Secretary.

14 “(B) The district court shall have jurisdiction, without
15 regard to the amount in controversy or the citizenship of
16 the parties, to enforce any such provision or regulation, or
17 to order the Secretary to perform such act or duty, as the
18 case may be.

19 “(3) No action may be commenced under paragraph
20 (2)(A)(ii)(III)—

21 “(A) prior to 60 days after written notice of the
22 violation has been given to the Secretary, and to any
23 alleged violator of this section or any regulation
24 issued hereunder;

1 “(B) if the Secretary of the Treasury has com-
2 menced an action to impose a penalty pursuant to
3 subsection (c); or

4 “(C) if the United States has commenced and is
5 diligently prosecuting a criminal action in a court of
6 the United States or State to address a violation of
7 any such provision or regulations.

8 “(e) TREBLE DAMAGES.—Any person in competition
9 with a person importing goods, wares, articles, or mer-
10 chandise prohibited by subsection (a), who is injured as a
11 result of such violation, may bring an action in a court of
12 the United States and shall recover three-fold the amount
13 of the damages sustained by such violation.”

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AP-US-CHINA, UPDATE

URGENT

SENATE VOTES CONDITIONS ON CHINA'S TRADE STATUS; BUSH VETO SEEN
UPDATES WITH VOTE

BY JIM DRINKARD

ASSOCIATED PRESS WRITER

WASHINGTON (AP) -- THE SENATE VOTED TUESDAY TO IMPOSE A LONG LIST OF
STRICT NEW CONDITIONS ON RENEWAL OF CHINA'S NORMAL TRADE STATUS IN
1992, JOINING THE HOUSE IN DEALING A STRONG REBUKE TO PRESIDENT BUSH'S
POLICY TOWARD BEIJING.

BUT THE 55-44 VOTE, PROMPTED BY CONGRESSIONAL CONCERN OVER CHINA'S
RECORD ON HUMAN RIGHTS, TRADE AND ARMS SALES, FELL FAR SHORT OF THE
TWO-THIRDS MAJORITY THAT WOULD BE NEEDED TO OVERRIDE A CERTAIN
PRESIDENTIAL VETO.

THE SENATE AND HOUSE NOW MUST NEGOTIATE THE DIFFERENCES BETWEEN
THEIR VERSIONS OF THE BILL, AND SENATE MAJORITY LEADER GEORGE MITCHELL,
D-MAINE, HAS PROMISED TO SEE THE VETO BATTLE THROUGH TO A CONCLUSION,
EVEN THOUGH BUSH APPEARED VIRTUALLY CERTAIN TO WIN IT.

THE PRESIDENT CONTENDS THAT CONGRESS' REQUIREMENTS WOULD POSE AN
IMPOSSIBLE BARRIER TO RENEWAL OF WHAT IS CALLED "MOST-FAVORED NATION"
TRADE STATUS, RESULTING IN A CUTOFF OF MOST TRADE AND ABANDONMENT OF A
RARE OPENING TO PROD BEIJING TOWARD ECONOMIC AND POLITICAL REFORM.

"THIS IS ONE OF THOSE CLOSE ISSUES WHERE ONE CAN MAKE STRONG
ARGUMENTS ON BOTH SIDES AND WHERE THE PRESIDENT IS A LEGITIMATE
EXPERT," SAID SEN. PHIL GRAMM, R-TEXAS, ALLUDING TO BUSH'S FORMER
STATUS AS THE U.S. ENVOY TO CHINA. "I BELIEVE WE OUGHT TO GIVE THE
PRESIDENT THE BENEFIT OF THE DOUBT."

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THE WHITE HOUSE
WASHINGTON

June 3, 1991

MEMORANDUM TO GOVERNOR SUNUNU
THROUGH: Fred McClure *fm*
FROM: Jim Dyer *JD*
RE: MFN China

This paper outlines a program to secure approval of the President's request for an extension of Most Favored Nation Status for China. Given strong opposition to this decision from Democrats and conservative Republicans alike, we will be forced into a veto strategy in the Senate. In pursuing this strategy, we assume that Hill Democrats will seek to force us to accept conditional MFN that threatens our relationship with the Chinese. They will also attempt to pass a resolution of disapproval of the President's request.

We must try to obtain 34 votes (probably all Republicans) to sustain a veto of both a simple MFN extension and a conditional MFN.

Congressional Procedures

The President's formal notification of intention to extend MFN was sent to Congress on May 28th. Congress now has 90 calendar days to pass a joint resolution of disapproval through both Houses. Should the President veto the resolution, Congress has 15 calendar days to override that veto.

Legislative Action - Senate

We propose a series of meetings with the President beginning on Tuesday. In the Senate, our goal is simply to get 34 votes. Given Majority Leader Mitchell's early opposition this will be a partisan, personal fight. Should Mitchell press hard on all 57 Democrats to support his MFN with strict conditions approach, we must avail ourselves of Republican reticence to take sides with Mitchell against the President.

Initially, we must welcome support from Bentsen, Baucus, et. al., but we should start with the assumption that we need 34 Republicans. The best barometer of our current position is last year's Senate vote on HR 2712, the Chinese Student Immigration Bill. The vote to sustain the President's veto was 62-37 with 8 Republicans joining all 54 Democrats opposing the President.

Of those 37 Republicans, we have lost Heinz (PA), McClure (ID) and Humphrey (NH). We have no chance of getting Heinz' successor. We must work hard to hold Humphrey's successor (R. Smith) and McClure's successor (Craig).

Of the eight Republicans lost, our best chances are to peel back their successors Brown and Seymour. Seymour is especially critical given his reelection needs and his large Asian population. Other Republicans in this category include Cohen, Gorton, Helms, Kasten and Pressler.

We have another category of Republicans who advised us "never again" after last years vote. They were with us, but reluctantly. Already, two of them, Wallop and D'Amato have cosponsored Mitchell's bill. Others in this category include Coats, Grassley, Symms, Mack and Lott.

When you fold these vulnerabilities into our vote analysis, we are much weaker this year than last. Indeed, we may have to add Packwood to this group despite his strong pro-export position.

We intend to bring all these Senators to meet with the President; we propose at least 2 meetings each week until all have been personally contacted. We Will include Republicans from the Finance Committee, Foreign Relations Committee, as well as Republicans who may have supported us before, but who are now wavering for political or ideological reasons.

Legislative Action - House

We are going to have to undertake a modest level of activity in the House, despite our reliance on a Senate veto strategy. The House has already begun hearings. There are Democrats and Republicans who want to help us. An overwhelming vote against a straight up extension damages us and heightens the political pressure on vulnerable Republican Senators who will feel less isolated if there are in excess of one hundred or so votes against blocking MFN. Because the bill that passes the House will probably be a GOP bill (Solomon NY), we must do all we can to lessen the pressure on wavering GOP Senators.

We are developing a series of legislative activities for the House and we will advise you of our plans in this regard as soon as possible.

Other Activities

Public Diplomacy

We will need a strong effort in public diplomacy at several fronts:

They include:

-- Mobilization of the business community behind MFN. A special attention will be paid to the defense and aerospace community to get them focused on the job losses inherent in this threat to our trade policies.

-- Mobilize activities in the Asian community. We need to dispel the notion that the Asian community does not support the President's policy.

-- Chinese students: our information is that many of them support MFN. Voicing that support publicly deflects criticism that we are insensitive to human rights.

Cabinet Activities

We will use Secretaries Baker, Mosbacher and Brady along with Ambassador Hills whenever possible. Their schedules are being cleared for individual briefings. The State Department will be the lead agency in this effort. We are assembling briefing teams at the subcabinet level to compliment Cabinet level activities. We need to provide information to the Hill and the media on a broad range of issues including nuclear proliferation, trade opportunities, human rights progress, textiles, slave labor, support for the Khmer Rouge in Cambodia and other areas.

Congressional Schedule

The Senate Foreign Relations Committee will be scheduling hearings as early as June 13th to review the President's request. House Ways and Means will hold its first hearing June 12th with Secretary Eagleburger testifying. Other hearings will follow as Finance, Ways and Means, Foreign Relations and Foreign Affairs Committees all assume some jurisdiction for any resolution of disapproval.

We are also exploring opportunities for special meetings with the Senate Steering Committee, Policy Committee and other venues.

We are establishing a working group within the White House including NSC, Legislative, Public Diplomacy and Cabinet Affairs to develop a more detailed plan which we will have for you shortly.

This week we will have sent information packages along with the President's speech at Yale to all 535 members of Congress. Our Subcabinet briefing teams will be in place this week. I am appending a calendar of suggested events aimed at getting us out of the box quickly on this issue. Our initial goal is to get our message out, to urge members to keep their powder dry and then to build hard veto strength in the Senate.

JUNE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3	4 *POTUS MTG W/ SENATORS (BIPART)	5	6 *MEETING W/ BUSINESS GROUPS(T)	7 *POTUS MEETING W/ HOUSE (BIPART)
10	11	13 *WAYS& MEANS COM (EAGLEBURGER) *9:15 POTUS W/ SENATE FINANCE *SFRC - GOP (TBD)	14 *MEETING W/ ASIAN GROUPS(T) *HFAC HEARING (T) *FINANCE COMM HEARING (T)	14
17	18	19 *10:00 POTUS MTG W/ SELECTED REPUBLIC SENATORS	20 *MTG W/ AEROSPACE IND. GROUPS (T)	21
24	25 *10:00 POTUS MTG W/ SELECTED SENATE GOP MEMBERS	26	27 *POTUS MTG W/ SELE REPUBL. SENATORS *MTG W/ CHINESE STUDENT GROUPS	28
31				

JULY

MONDAY 1	TUESDAY 2	WEDNESDAY 3	THURSDAY 4	FRIDAY 5
SENATE - OUT				
HOUSE - OUT				
8	9	10	11	12
HOUSE & SENATE RETURN				
15	16	17	18	19
22	23	24	25	26
29	30	31		

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

June 4, 1991

MEMORANDUM TO: Members of China/MFN Task Force
FROM: Douglas Paal, NSC
SUBJECT: Agenda, June 5, 1991

Meeting: Wednesday, June 5, 1991, 10:00-11:00 a.m., OEOB,
Room 476

PARTICIPANTS: Please phone 202-395-5746 with your
participant's name and date of birth.

AGENDA

- I. NSC - Introduction/status report.
- II. State - Briefing packages for House/Senate. (Please bring copies for each Department/Agency.)
- III. All - Target groups and associations. Identify briefing team members for Hill calls.
- IV. White House Communications - Op Ed strategy.

27th. 28
Chinese American - State Dept (Hansson)
Chamber - POTUS - medals
Loeffler - Coordinator - call

NATIONAL SECURITY COUNCIL

Symms
McCain
Brown
Craig
Seymour
Dole
Lugar
Murkowski
Boren
Simpson
Lieberman
Bentsen
Robb
Baucus
J. Kerry
Coats
Grassley

THE WHITE HOUSE

WASHINGTON

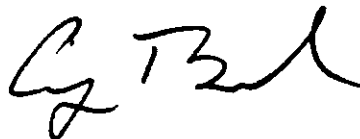
Dear Mr. Liu:

Thank you for your recent letter concerning the United States relations with the People's Republic of China.

I have asked my staff to respond to this issue in more detail, but I did want you to know I read your letter and appreciated your sharing your views with me.

Best wishes.

Sincerely,

A handwritten signature in dark ink, appearing to be "G. Bush", written in a cursive style.

Mr. Dongzi Liu
Department of Physics
University of Maryland
College Park, Maryland 20742

May 14, 1991

Dear Mr. President :

You must feel very happy because you are the leader of the strongest country and the people in America have the highest living standard in the world. As one of the world leader Do you think every Chinese people also deserves a better life ?

I am a Chinese student who came here under CUSPEA program in 1989. As a Chinese citizen , I really concern about our nation's MFN status.

You must have heard a lot from those "Democracy" or "Human Rights" fighters. I can hardly agree with them because they are spending my money to deny my motherland's MFN status. Would you mind hearing a few words from me ?

I also fought for democracy and spent several days and nights on Tiananmen Square. But now I think China need more smooth transition.

When you determine whether you are doing right thing for Chinese human rights , you have to ask majority of Chinese people: what do they need ? By denying the right of several people who want to bring China into chaos , we keep the right for most of the people to live a normal life and work for a better life.

When I went back this winter vacation , I found things were quite different from western reports. A lot of Chinese just don't like some bad guys' behavior in USA. I don't think these guys really care about China because they are not working hard in study and they probably care more about their "Green Card".

If you deny MFN for China , a lot of Chinese including my parents , my friends and relatives would be hurt seriously. So I hope you can extend MFN for China . Chinese people will thank you not for democracy , human right or an independent Tibet but for your helping them living a better life. Thank you for your attention.

Sincerely yours

Dongzi Liu
Dongzi Liu

POINTS TO BE MADE FOR MEETING WITH
REPUBLICAN SENATORS

- 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.
- Just last week the Chinese took a major step in agreeing to join the talks in Paris on my Middle East Arms Control initiative.
- This is a positive development because it may open the way to make progress on the proliferation problems in the region, and it goes to the heart of the reasons for extending MFN for China.
- You get more flies with honey than with vinegar.
- Nonetheless, where there are problems with China, 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.
- We are pressing 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 trading 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. I think the
announcement on Middle East Arms Control helps prove the
point.
- 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.

THE WHITE HOUSE

WASHINGTON

MEETING WITH REPUBLICAN SENATORS

DATE: June 12, 1991
LOCATION: Cabinet Room
TIME: 9:00 a.m. (45 minutes)
FROM: Frederick D. McClure 

I. PURPOSE

To meet with key Republican Senators to discuss MFN for China.

II. BACKGROUND

This meeting is a continuation of your Congressional consultations on how best to secure MFN status for China. Today's group consists of Republicans who will need a "hard sell" on the issue. This group is largely drawn from the conservative Senators who are unhappy with China's activities in human rights, trade and nuclear proliferation. This group will be among the most difficult to convince that granting MFN, without conditions, is sound trade and foreign policy. There are also supportive Republicans from the leadership among the invitees.

III. PARTICIPANTS

See Attachment A.

IV. PRESS PLAN

White House Press Pool.

V. SEQUENCE OF EVENTS

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

Attachment A: Participants List

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

Attachment A

Participants List**The President****The Vice President**

James Baker, Secretary of State
Richard Darman, Director, Office of Management and Budget

Senator Robert Dole (R-KS), Senate Minority Leader
Senator Alan Simpson (R-WY), Assistant Minority Leader
Senator Thad Cochran (R-MS)
Senator Larry Craig (R-ID)
Senator Phil Gramm (R-TX)
Senator Robert Kasten (R-WI)
Senator Trent Lott (MS)
Senator Frank Murkowski (R-AK)
Senator Don Nickles (R-OK)
Senator Robert Smith (R-NH)
Senator Steven Symms (R-ID)
Senator Strom Thurmond (R-SC)
Senator Malcolm Wallop (R-WY)

White House Participation

John Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
Philip Brady, Assistant to the President and Staff Secretary
Andy Card, Deputy to the Chief of Staff
David Demarest, Assistant to the President for Communications
Marlin Fitzwater, Assistant to the President and Press Secretary
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, NSC
Douglas Paal, Director of Asian Affairs, NSC

Others

Janet Mullins, Assistant Secretary of State for Legislative Affairs
Bill Kristol, Chief of Staff to the Vice President
Bill Gribbin, Assistant to the Vice President for Legislative Affairs

THE WHITE HOUSE
WASHINGTON

JUNE 21, 1991

Jim
FYI
Jeff

MEMORANDUM FOR GOVERNOR SUNUNU

THROUGH: DAVID DEMAREST, ASSISTANT TO THE PRESIDENT FOR
COMMUNICATIONS

FROM: BOBBIE KILBERG, DEPUTY ASSISTANT TO THE PRESIDENT
FOR PUBLIC LIAISON
JEFF VOGT, ASSOCIATE DIRECTOR, PUBLIC LIAISON

SUBJECT: PROPOSED COMMITTEE FOR MFN

We are working to assemble a bipartisan "peer" group committee in support of MFN. This would be similar in concept to the committee which Congressman Solarz created during the Gulf vote.

Few Democrat Members in the House and Senate choose to be out front on this issue. We have, however, listed potential prospects for this purpose.

We would like the proposed co-chairs to take the initiative, approaching leading figures supportive of MFN to join their group. The participants in this committee would engage in similar activities as in the Gulf vote: targeted advertisements, op-ed pieces to major and targeted markets, group and individual visits and letters to the Hill and TV appearances promoting the Administration's position.

We have compiled the following list of names for your consideration as people we plan to approach to join the effort which we hope that Robinson and Jones would spearhead. Please let us know if you have additional comments or changes. Thank you.

CO-CHAIRMEN

Jim Jones
Chairman, American Stock Exchange
Chairman, American Business Conference

Jim Robinson
Chairman, American Express Corporation
Chairman, ACTPN

PROPOSED CORE BUSINESS/ASSOCIATION LEADERS ON COMMITTEE:

Mr. Dwayne Andreas, Chairman
Archer-Daniels Midland

Mr. Maurice R. Greenberg, Chairman
American International Group, Inc.

Mr. Jerry Jasinowski, President
National Association of Manufacturers

Mr. Drew Lewis, Chairman, Union Pacific
Chairman, The Business Roundtable

Mr. C.J. (Pete) Silas, Chairman & CEO
Phillips Petroleum
Chairman, U.S. Chamber of Commerce

Mr. Dave Tappan, former Chairman
Fluor Corporation

Mr. Kay Whitmore, Chairman
Eastman Kodak

Other CEOs of corporations doing business in China.

SENATE/HOUSE:

(TBD by Legislative Affairs, however, tentative list below.)

Senator Dole
Senator Lugar
Senator Max Baucus

Congressman Robert Michel
Congressman Bill Archer
Congressman Phil Crane
Congressman Sam Gibbons

OTHER LEADING FIGURES:

Richard Allen, former NSC Advisor
Bill Brock, former U.S. Trade Representative
Frank Carlucci, former NSC Advisor
Dick Holbrook, former Assistant Secretary of State in Carter
Administration
Jean Kirkpatrick, former U.S. Representative to the United
Nations

Ambassador James Lilley, former Ambassador to China
Gaston Sigur, former Assistant Secretary of State
Cyrus Vance, former Secretary of State in Carter Administration
Cap Weinberger, former Secretary of Defense

AGRICULTURE LEADERS:

Secretary John R. Block, President
National Agricultural Advisory Committee (over 80 ag groups
represented -- very active in fast track debate)
Secretary Earl Butz
Secretary Orville L. Freeman
Secretary Clifford M. Hardin
Secretary Richard E. Lyng
Dean Kleckner, President, American Farm Bureau
Ron Ravinius/Carl Schwensen, President/Exec. Vice President,
National Association of Wheat Growers

CHINESE STUDENT LEADERS:

Representatives from the Chinese-American Students Association
(including 5 students who met with the President during his visit
2 in California.)

Director, Chinese Student Center, Harvard University

Various leading Chinese students in California and elsewhere.

ASIAN AMERICAN BUSINESS LEADERS:

Mr. Henry Y Hwang, Chairman and President
Far East National Bank
(to form Committee of Asian American corporate CEOs)

Mrs. Florence Fang, Asian Week; media interests.

CHINESE-AMERICAN SCHOLARS:

Professor John Tsu, John F. Kennedy University
(to form committee of scholars/University professors)

Professor Chi Wang, Georgetown University

MISCELLANEOUS:

Consumer Groups such as Consumer Alert, Citizens for A Sound
Economy and Consumers Union.

Mr. John Gardiner, former President, University of California

Leonard Woodcock, former President of AFL-CIO's United Auto
Workers

cc: Jim Dyer
Sichan Siv
Doug Paal

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 his 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	Johnston	Bond	Lott		
Boschwitz	Baucus	Kennedy	Burns	Lugar		Breaux ⁴
Cohen	Bentsen	Kerrey	Chafee	Mack		
Gorton	Biden	Kerry	Coats	McCain		
Helms	Bingaman	Kohl	Cochran	McClure		
Kasten	Boren	Lautenberg	D'Amato	McConnell		
Pressler	Bradley	Leahy	Danforth	Murkowski		
Wilson	Bryan	Levin	Dole	Nickles		
	Bumpers	Lieberman	Domenici	Packwood		
	Burdick	Matsunaga	Durenberger	Roth		
	Byrd	Metzenbaum	Garn	Rudman		
	Conrad	Mikulski	Gramm	Simpson		
	Cranston	Mitchell	Grassley	Specter		
	Daschle	Moynihan	Hatch	Stevens		
	DeConcini	Nunn	Hatfield	Symms		
	Dixon	Pell	Heinz	Thurmond		
	Dodd	Pryor	Humphrey	Wallop		
	Exon	Reid	Jeffords	Warner		
	Ford	Riegle	Kassebaum			
	Fowler	Robb				
	Glenn	Rockefeller				
	Gore	Sanford				
	Graham	Sarbanes				
	Harkin	Sasser				
	Heflin	Shelby				
	Hollings	Simon				
	Inouye	Wirth				

EXPLANATION OF ABSENCE:
 1—Official Business
 2—Necessarily Absent
 3—Illness
 4—Other

SYMBOLS:
 AY—Announced Yea
 AN—Announced Nay
 PY—Paired Yea
 PN—Paired Nay

A. Extension of MFN for One Year

MFN for China is extended for one year (to July 3, 1992). On July 3, 1992, MFN for China may not be renewed unless the President certifies that China has met the following conditions:

1. Has accounted for citizens detained, accused or sentenced as a result of Tiananmen Square;
and
2. Has released citizens who were imprisoned as a result of Tiananmen Square.

B. Overall Significant Progress Conditions

On July 3, 1992, the President must also certify that China (including Tibet) has made overall

significant progress in:

1. Taking appropriate action to prevent human rights violations;
2. Ceasing of religious persecution and release of religious leaders detained;
3. Ensuring freedom from torture and establishment of humane prison conditions;
4. Removing restrictions on Voice of America broadcasts;
5. Allowing human rights groups access to prisoners and trials.
6. Terminating intimidation and harassment of Chinese students in the United States; and
7. Terminating prohibitions on peaceful assembly and demonstration imposed after June 3, 1989;
8. Moderating its position on Taiwan's GATT accession;
9. Adhering to the United Kingdom-China Joint

Declaration on Hong Kong;

10. Fulfilling its commitment to engage in high level discussions on human rights;
11. Providing adequate protection of intellectual property rights;
12. Providing U.S. exporters fair market access and removal of a variety of non-tariff barriers;
13. Ceasing unfair trade practices;
14. Adopting a policy which stops nuclear and missile proliferation

(NOTE: This provision contains a special definition which states that any transfer of ballistic missiles is not significant progress);

15. Assuring the U.S. that it does not, and will not assist any nuclear weapon state in acquiring nuclear weapons or devices and will

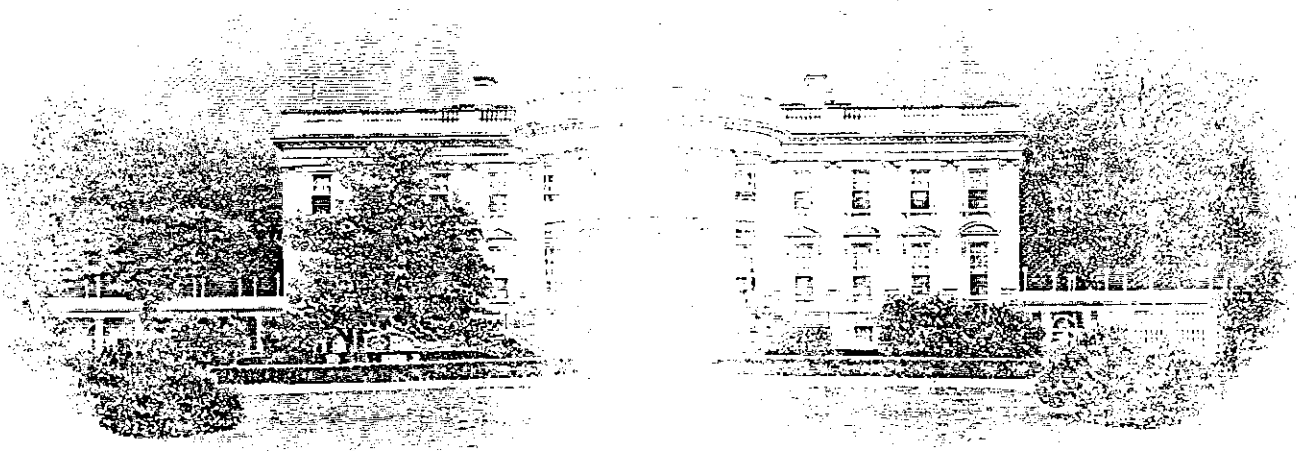
not contribute to nuclear proliferation;

If MFN is revoked for any reason, the President must urge our GATT partners to take similar action.

C. SLAVE LABOR

Current law prohibits the importation of goods made by convict or forced labor. The conference report establishes civil penalties (between \$100,000 and \$1 million) for knowing violations of the convict labor import law.

*Executive Office of the President
Office of Legislative Affairs*



FACSIMILE TRANSMITTAL SHEET

Number of Pages including cover 5

Date: 11/26/91

To: Janet Mullins

Fax Number: 647-2762

Office Number: _____

Comments: _____

From: Jim Dyer

Fax Number: _____

Office Number: _____

SENATOR BROCK ADAMS _____
 SENATOR DANIEL AKAKA _____
 SENATOR MAX BAUCUS _____
 SENATOR LLOYD BENTSEN _____
 SENATOR JOSEPH BIDEN _____
 SENATOR JEFF BINGAMAN _____
 SENATOR DAVID BOREN _____
 SENATOR BILL BRADLEY _____
 SENATOR JOHN BREAUX _____
 SENATOR RICHARD BRYAN _____
 SENATOR DALE BUMPERS _____
 SENATOR QUENTIN BURDICK _____
 SENATOR ROBERT BYRD _____
 SENATOR KENT CONRAD _____
 SENATOR ALAN CRANSTON _____
 SENATOR THOMAS DASCHLE _____
 SENATOR DENNIS DECONCINI _____
 SENATOR ALAN DIXON _____
 SENATOR CHRISTOPHER DODD _____
 SENATOR JAMES EXON _____
 SENATOR WENDELL FORD _____
 SENATOR WYCHE FOWLER _____
 SENATOR JOHN GLENN _____
 SENATOR AL GORE _____
 SENATOR ROBERT GRAHAM _____
 SENATOR TOM HARKIN _____
 SENATOR HOWELL HEFLIN _____
 SENATOR FRITZ HOLLINGS _____
 SENATOR DANIEL INOUE _____
 SENATOR BENNETT JOHNSTON _____
 SENATOR TED KENNEDY _____
 SENATOR JOHN KERRY _____
 SENATOR BOB KERREY _____
 SENATOR HERB KOHL _____
 SENATOR FRANK LAUTENBERG _____
 SENATOR PATRICK LEAHY _____
 SENATOR CARL LEVIN _____
 SENATOR JOSEPH LIEBERMAN _____
 SENATOR HOWARD METZENBAUM _____
 SENATOR BARBARA MIKULSKI _____
 SENATOR GEORGE MITCHELL _____
 SENATOR DANIEL MOYNIHAN _____
 SENATOR SAM NUNN _____
 SENATOR CLAIBORNE PELL _____
 SENATOR DAVID PRYOR _____
 SENATOR HARRY REID _____
 SENATOR DONALD RIEGLE _____
 SENATOR CHARLES ROBB _____
 SENATOR JOHN ROCKEFELLER _____
 SENATOR TERRY SANFORD _____
 SENATOR PAUL SARBANES _____
 SENATOR JIM SASSER _____
 SENATOR RICHARD SHELBY _____
 SENATOR PAUL SIMON _____

SENATOR PAUL WELLSTONE _____
 SENATOR TIMOTHY WIRTH _____
 SENATOR HARRIS WOFFORD _____

TOTALS

- 1. No Conditions _____
- 2. Undecided on Conditions _____
- 3. Mild Condition _____
- 4. Supports Mitchell _____
- 5. Opposes MFN _____

1 (B) prolonged detention without charges
2 and trial and sentencing of persons solely for
3 the nonviolent expression of their political
4 views;

5 (C) arbitrary arrest and the
6 unacknowledged detention of persons; and

7 (D) use of forced labor of prisoners to
8 produce cheap products for export to countries,
9 including the United States, in violation of
10 international labor treaties and United States
11 law.

12 (3) The Government of the People's Republic of
13 China has denied Chinese citizens who support the
14 pro-democracy movement and others the right of
15 free, unimpeded emigration.

16 (4) The Government of the People's Republic of
17 China has restricted the number of students permit-
18 ted to study abroad, required some college students
19 to attend military indoctrination courses, and re-
20 quired university graduates to work 5 years after
21 graduation and to pay large sums of money before
22 being eligible to apply for study outside China.

23 (5) The Government of the People's Republic of
24 China continues to violate the internationally recog-
25 nized human rights of the people of Tibet and uses

1 the People's Liberation Army and police forces to in-
2 timidate and repress Tibetan and Chinese citizens
3 peacefully demonstrating for democratic change and
4 religious freedom.

5 (6) The Government of the People's Republic of
6 China is engaging in unfair trade practices against
7 the United States by failing to protect intellectual
8 property rights, raising tariffs, employing taxes as a
9 surcharge on tariffs, using discriminatory customs
10 rates, imposing import quotas and other quantitative
11 restrictions, barring the importation of some items,
12 using licensing and testing requirements to limit im-
13 ports, and falsifying country of origin documentation
14 to transship textiles to the United States through
15 third countries.

16 (7) The Government of the People's Republic of
17 China has not demonstrated its willingness and in-
18 tention to participate as a full and responsible party
19 in good faith efforts to control the proliferation of
20 dangerous military technology and weapons, includ-
21 ing biological, chemical, and nuclear weapons
22 technologies.

23 (8) The Government of the People's Republic of
24 China has interfered with the movement toward self-

1 rule by the people of Hong Kong in their political,
2 cultural, and economic activities.

3 (9) The President of the United States has sus-
4 pended all government-to-government sales and com-
5 mercial exports of defense articles and services to
6 China and issued an Executive order to treat sympa-
7 thetically requests by Chinese students in the United
8 States to extend their stay.

9 (10) United States policy toward China has
10 failed to prevent or discourage the People's Republic
11 of China from—

12 (A) committing violations of internationally
13 recognized human rights, including the rights of
14 the people of Tibet;

15 (B) taking action that results in the prolif-
16 eration of dangerous military technology and
17 weapons; and

18 (C) engaging in unfair trade practices
19 against the United States.

20 (b) POLICY.—It is the sense of the Congress that—

21 (1) with respect to the actions of the People's
22 Republic of China in the areas of human rights,
23 weapons proliferation, and unfair trade practices,
24 the President should take such actions as necessary

1 to achieve the purposes of this Act, including, but
2 not limited to—

3 (A) instructing the United States delega-
4 tion to the United Nations Commission on
5 Human Rights to actively seek the appointment
6 of a special rapporteur to investigate violations
7 of internationally recognized human rights in
8 China and to seek allied and Soviet support for
9 such an investigation;

10 (B) directing the United States Trade
11 Representative to take appropriate action pur-
12 suant to section 301 of the Trade Act of 1974
13 with respect to the trade practices of the Peo-
14 ple's Republic of China which are unreasonable,
15 unjustifiable, or discriminatory and which bur-
16 den or restrict United States commerce;

17 (C) interacting more forcefully with our al-
18 lies, especially Japan and European countries,
19 to accomplish the restriction of transfers of
20 technology to China; and

21 (D) encouraging members of the Missile
22 Technology Control Regime, and other coun-
23 tries, as appropriate, to set up a working group
24 to develop a common policy concerning missile

1 transfers to other countries by the People's Re-
2 public of China;

3 (2) the sanctions being applied against the Peo-
4 ple's Republic of China on the date of enactment of
5 this Act should be continued and strictly enforced;
6 and

7 (3) the President should submit the report re-
8 quired by the Joint Resolution relating to the ap-
9 proval and implementation of the proposed agree-
10 ment for nuclear cooperation between the United
11 States and the People's Republic of China (Public
12 Law 99-183; 99 Stat. 1174).

13 **SEC. 3. ADDITIONAL OBJECTIVES WHICH THE GOVERN-**
14 **MENT OF CHINA MUST MEET IN ORDER TO**
15 **RECEIVE NONDISCRIMINATORY TREATMENT.**

16 (a) **IN GENERAL.**—The President may not recom-
17 mend the continuation of a waiver in 1992 for a 12-month
18 period under section 402(d) of the Trade Act of 1974 for
19 the People's Republic of China unless the President re-
20 ports in the document required to be submitted by such
21 section that the government of that country—

22 (1) has, in regard to the events that led up to,
23 and occurred during and after, the violent repression
24 of dissent in Tiananmen Square on June 3, 1989—

1 (A) provided an accounting of citizens who
2 were detained, accused, or sentenced as a result
3 of the nonviolent expression of their political be-
4 liefs during those events; and

5 (B) released citizens who were imprisoned
6 after such detention, accusation, or sentencing;
7 and

8 (2) has made overall significant progress in
9 achieving the objectives outlined in each of the cate-
10 gories of—

11 (A) human rights, as described in subsec-
12 tion (b);

13 (B) trade, as described in subsection (c);
14 and

15 (C) weapons proliferation, as described in
16 subsection (d).

17 (b) HUMAN RIGHTS.—The human rights objectives
18 described in this subsection are—

19 (1) taking appropriate action to prevent gross
20 violations of internationally recognized human rights
21 in the People's Republic of China, including Tibet;

22 (2) preventing exports of products made by
23 prisoners and detainees assigned to labor camps,
24 prisons, detention centers, and other facilities hold-
25 ing detainees, and allowing United States officials

H.R. 2212 — United States-China Act of 1991

Reported: From the Committee of Conference on November 26, 1991. H. Rept. No. 102-392.

NOTEWORTHY

- The Conference Report to H.R. 2212 prohibits the President from extending nondiscriminatory trade status — usually called “Most-Favored-Nation” (MFN) status — to the People’s Republic of China (PRC) during 1992 unless he reports to the Congress that: (1) the PRC has accounted for and released Chinese citizens repressed for political reasons; and (2) has made significant progress on human rights, trade, and weapons proliferation.
- The Conference Report, which is not amendable, was approved by the House of Representatives on November 26, 1991, by a vote of 409 to 21; the original H.R. 2212 passed the House on July 10, 1991, 313 to 112. The Conference Report is considerably weaker than the original Senate bill, S. 1367, which passed the Senate on July 23, 1991, by a margin of 55 to 41.
- Under both the House and Senate bills, most of the human-rights and other criteria were conditions which the PRC must meet prior to renewal of MFN. In the Conference Report, most of these criteria require only that the PRC demonstrate “substantial progress” for MFN to be extended.
- Language in both the Senate and House bills requiring the PRC to stop coercive abortion and involuntary sterilization as a condition of MFN has been deleted from the Conference Report.
- The Conference Report (Section 7(6)(B)) specifies that the PRC may not be determined to have made “significant progress” on arms proliferation if the President determines that on or after November 26, 1991, the PRC has transferred to Syria or Iran: (1) M-9 or M-11 ballistic missiles or missile launchers; or (2) material, equipment, or technology which would contribute significantly to the manufacture of a nuclear device.
- Senate language regarding PRC support for the Khmer Rouge in Cambodia has been deleted.
- The President has promised to veto any legislation restricting extension of MFN to the PRC.

For a fuller explanation of the legal definition of MFN and its current application to the PRC, see *Legislative Notice* No. 24, of July 16, 1991, available from the Republican Policy Committee.

MAJOR PROVISIONS

(With Notes Comparing the House and Senate Bills)

Section 2. Findings and Policy.

The Congress finds that the government of the PRC has taken a number of actions contrary to the Chinese people's desire for democratic freedoms, including torture, detention without trial, forced labor, denial of emigration, and restrictions on foreign study; in addition, the PRC government has repressed the people of Tibet, engaged in unfair trade practices with the United States, has failed to demonstrate good faith in controlling dangerous military technology (biological, chemical, nuclear), and interfered in the movement toward self-rule in Hong Kong. The President has suspended government-to-government defense sales and has, by Executive Order, allowed Chinese students in the U.S. to extend their stay, but this policy has failed to discourage the PRC from committing human rights violations, taking action that results in proliferation of dangerous military technology, and engaging in unfair trade practices.

The Congress states that the President is to take actions necessary to achieve the purposes of this Act, including but not limited to: supporting the appointment of a United Nations Commission on Human Rights "special rapporteur" to investigate human rights violations; directing the U.S. Trade Representative to take appropriate actions under Sec. 301 (which authorizes actions to enforce U.S. rights under trade agreements to protect the rights of U.S. persons) of the 1974 Trade Act with respect to PRC practices that are "unreasonable, unjustifiable, or discriminatory and which burden or restrict United States commerce"; "interacting more forcefully with our allies, especially Japan and European countries, to accomplish restriction of technology transfers"; and encouraging the setting up of an international working group to develop common policy concerning PRC missile transfers. In addition, the sanctions in this Act should be "continued and strictly enforced," and the President should submit the report concerning U.S.-PRC nuclear cooperation required by P.L. 99-183, 99 Stat. 1174.

NOTE: This section drops language in the Senate bill regarding PRC support for the genocidal Khmer Rouge in Cambodia, and language relating to guidelines for corporate activity.

Section 3. Additional Objectives Which the Government of China Must Meet in Order to Receive Nondiscriminatory Treatment.

Subsection (a). The President may not recommend continuation of the PRC's MFN status (which expires on June 3, 1992) pursuant to Section 402(d) of the 1974 Trade Act, i.e., the Jackson-Vanik Amendment, which allows MFN status for communist countries only upon a waiver from the President, which must be renewed yearly, unless the President reports that the PRC —

1. Has accounted for and released Chinese citizens repressed for political reasons in connection with the "violent repression of dissent in Tiananmen Square on June 3, 1989," and
2. Has "made overall significant progress" in achieving the objectives outlined in each of the categories of human rights (described in Subsection (b)), trade (Subsection (c)), and weapons proliferation (Subsection (d)). (See below.)

Subsection (b). **Human rights** objectives detailed in the Conference Report include: prevention of "gross violation of internationally recognized human rights," imports of products made by forced labor, religious persecution, removing restrictions on freedom of the press and Voice of America broadcasts, terminating harassment of Chinese citizens in the United States, ensuring access by international human rights monitors, ending torture, ending prohibitions on peaceful assembly, fulfilling commitments on human rights, and adhering to the Joint Declaration on Hong Kong between Britain and the PRC.

NOTE: These objectives fall into the "significant progress" requirement in Subsection (a) in the Conference Report, but in both the Senate and House bills many of these human rights criteria required compliance by the PRC as a condition for MFN extension. In addition, the Conference Report drops language appearing in both the Senate and House bills regarding the PRC's program of coercive abortion and involuntary sterilization.

Subsection (c). **Trade** objectives in the Conference Report include: protection of U.S. intellectual property rights (patents, copyrights, etc.), providing American exporters fair access to Chinese markets through the removal of tariff and nontariff barriers and through increased purchases of U.S. goods and services, and "ceasing unfair trade practices against the United States which are unreasonable and discriminatory and which burden or restrict United States commerce."

NOTE: Language regarding PRC trade policy was a prior condition for MFN in the original House bill but is part of the "significant progress" criteria in the Conference Report.

Subsection (d). The **weapons proliferation** objectives in the Conference Report include the PRC's "adopting a national policy which adheres to, and ceasing activities inconsistent with" international limitations and controls contained in the Missile Technology Control Regime (established in 1987 to restrict sensitive missile-relevant transfers based on an annex of missile equipment and technology), and standards and guidelines concerning nuclear, chemical, and biological arms proliferation. In addition, it

is a U.S. objective that the PRC should take "clear and unequivocal steps to ensure that [it] is not assisting and will not assist any nonnuclear state, directly, in acquiring nuclear explosive devices or the materials and components for such devices."

NOTE: The Conference Report (Section 7(6)(B)) specifies that the PRC may not be determined to have made "significant progress" in this area if the President determines that on or after November 26, 1991, the PRC has transferred to Syria or Iran: (1) M-9 or M-11 ballistic missiles or missile launchers; or (2) material, equipment, or technology which would contribute significantly to the manufacture of a nuclear device. Senate language regarding PRC support for the Khmer Rouge in Cambodia has been deleted.

Section 4. Sanctions By Other Countries.

If the President decides not to seek an extension of the PRC's MFN status, he shall, during the 30-day period beginning on the date he would have recommended a Jackson-Vanik waiver (i.e., June 3 to July 3, 1992) undertake efforts to ensure that other GATT members take similar action toward the PRC as enacted in this legislation.

NOTE: This is a modification of language appearing in the Senate bill; no comparable provision appeared in the House bill.

Section 5. Enforcement of Prohibition Against Importation of Convict-Made Goods.

The Tariff Act of 1930 (also called the Smoot-Hawley Act) prohibits the importation of goods made by convict or forced labor. The Conference Report modifies Section 307 of Smoot-Hawley to provide penalties for importation or attempted importation of prohibited goods: \$10,000 for one violation, \$100,000 for two violations, and \$1 million for three or more violations.

NOTE: No such prohibition appeared in the House bill. The Conference Report adds a "knowing or should have known" standard to the Senate language.

Section 6. Report by the President.

If the President recommends extension of MFN during 1992, he must submit, in addition to the report required under Jackson-Vanik, a report on PRC compliance with Section 3 of this Act.

NOTE: The Conference Report language is from the House bill; the Senate provision was similar.

Section 7. Definitions.

This section explains terms found in the Act, including "gross violations of human rights," "missile technology control regime," and "significant progress."

NOTE: This section has language taken from both the House and Senate bills.

ADMINISTRATION POSITION

The Administration stands by the position stated at the time the Senate considered S. 1367. Excerpts from the original Administration policy statement of July 15, 1991, follow:

"The Administration strongly opposes . . . S. 1367, which would place additional conditions on MFN renewal. If [S. 1367] is presented to the President, his senior advisors will recommend a veto.

"The President extended China's MFN waiver because he determined that China met the legal requirements under the Jackson-Vanik amendment and that continuing MFN would serve broad U.S. economic and foreign policy interests and promote reform in China. . . . Extension of MFN substantially promotes U.S. freedom of emigration and travel objectives, and its withdrawal would place at risk the substantial gains already achieved in these areas.

"Extension of MFN is also important for promoting reform in China. . . . MFN withdrawal would hurt all Chinese, but would hurt most those Chinese, particularly in the market-oriented coastal provinces, who have the greatest stake in economic reform.

"A fundamental pillar of our relationship with the Chinese people, MFN is essential if we are to stay engaged with China on a broad range of issues, including human rights, nonproliferation, prison labor exports, and trade. Eliminating MFN would seriously erode our ability to influence Chinese behavior on these issues. It would also hurt U.S. exporters and consumers, and undermine confidence in Hong Kong where the United States has substantial economic interests.

"Conditional renewal is not acceptable because it would make China less likely to respond to U.S. concerns. Hardline Chinese leaders would claim that national honor and sovereignty preclude any concessions to the United States. Imposing new conditions for renewal would, in effect, hold our single most powerful instrument for influencing China — trade and the openness which it brings — hostage to the reactions of the Chinese government.

"Where particular issues are unresolved and the Chinese are not forthcoming, the President has the tools necessary to pursue U.S. interests in a targeted fashion. MFN's withdrawal is the wrong tool because of its indiscriminate impact and adverse effect on all Chinese, particularly those who continue to seek reform. . . ."

JAN 29 '92 13:27 FROM USTR

PAGE.002

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

The Honorable Max S. Baucus
United States Senate
Washington, D.C. 20510-2602

Dear Senator Baucus:

With debate over China's Most-Favored-Nation (MFN) trade status once again about to begin in the Senate, I want to stress in the strongest possible terms the President's and my continuing commitment to maintaining unconditional MFN for China. I would like to bring you up to date on several fronts where the Administration has made progress with the Chinese as outlined in the commitment that the President made in his letter of last July 19.

MFN now underpins a U.S.-China trade relationship that exceeds \$23 billion in two-way trade, with a substantial and growing market for U.S. aircraft, wheat, fertilizer, cotton, and wood products among others. Trade with China has led to the creation of thousands of jobs for U.S. workers and farmers, and, it has helped to underwrite the current prosperity of Hong Kong.

We nonetheless continue our efforts to resolve the serious trade problems that we have with China. As instructed by the President last July, U.S. trade agencies, including USTR, have taken vigorous measures to rectify those problems. At the direction of the President, I ordered the initiation of a Special 301 and investigation into China's intellectual property rights practices and a Section 301 investigation into the denial of access for U.S. exports to Chinese markets. The Administration has also taken vigorous action with regard to Chinese textile transshipments.

These policy measures have begun to bear fruit. We concluded an agreement with China on January 17 that will considerably improve protection for copyrights, patents, trade secrets and other U.S. intellectual property. In the process, the Chinese have agreed to join two major international conventions for the protection of intellectual property and to make significant changes in their laws and regulations to implement the stipulations both of these conventions and of our bilateral agreement.

JAN 29 '92 13:27 FROM USIA

PAGE.003

The Honorable Max S. Baucus
Page 2

As you know, because of this agreement, the two leading industry associations, PMA and IIPA, both came out strongly in support of renewal of unconditional MFN.

In the current 301 investigation into market access questions, we are also pressing China to make significant structural changes in its still highly protectionist trade regime and to eliminate market barriers to U.S. exports. In this regard, we have asked the Chinese to bring their trade regime up to international standards as expressed by the principles and stipulations of the General Agreement on Tariffs and Trade (GATT). Although our talks with China on market access issues have just hit full stride, we have made some initial progress in beginning the process of reducing prohibitively high tariffs, import licensing requirements, and in improving transparency.

The Customs Service has increased greatly its investigation into suspected illegal Chinese textile transshipments. Moreover, recent raids on importers of Chinese textiles in the United States should provide an additional deterrent to fraud. Substantial charges have been made against China's textile quotas, and the Chinese have been informed that additional countermeasures may be necessary.

The Administration is continuing to work with our trading partners to resolve the issues associated with Taiwan's accession to the GATT. I believe that Taiwan's accession to the GATT will make an important contribution to the global trading system and continue to support it. At the same time, it is clear that China's entry into the GATT would also be of benefit to the international trade community. It is also clear, however, that before China can accede to the GATT as a contracting party, China must demonstrate that it has complied with GATT requirements.

I urge you to continue to support unconditional MFN for China. As always, I look forward to working with you in our efforts to encourage China to improve its foreign trade regime and to become a full member of the international trade community in good standing.

Sincerely,

Carla A. Hills

** TOTAL PAGE.003 **

THE WHITE HOUSE

WASHINGTON

February 24, 1992

RECOMMENDED TELEPHONE CALL BY THE PRESIDENT

TO: SENATOR HANK BROWN (R-CO)
SENATOR JAMES JEFFORDS (R-VT)
SENATOR DON NICKLES (R-OK)

DATE: February 24, 1992

RECOMMENDED BY: Nicholas E. Calio

PURPOSE: To ask these Senators to vote against the Conference Report on H.R. 2212, the China MFN bill.

BACKGROUND: Tomorrow afternoon at 4:30 p.m., the Senate will vote on the Conference Report to H.R. 2212, a bill conditioning Most Favored Nation status for China. Last year the House approved this report by a large veto-proof margin. Last summer this bill passed the Senate by a vote of 55-44-1, demonstrating ample veto strength.

In canvassing Senators, we have found some softness developing on our side, resulting from concerns over China's purported missile sales to Third World countries. All three Senators on this list supported us on China MFN, however, they all have concerns about continued Chinese activities in this area. It is important that we hold their votes in preparation for what will certainly be a major foreign policy debate once this bill is vetoed. Deputy Secretary of State Lawrence Eagleburger has previously briefed these three Senators on this issue and Ambassador Carla Hills will call Senator Jeffords prior to your call.

KEY POINTS: -- I need you to continue to vote with me against George Mitchell's conditional China MFN bill.

-- Tomorrow Jim Baker will be briefing you on our most recent efforts to get the Chinese to adhere to the Missile Technology Control Regime (MTCR).

- This is an important step forward in our efforts to control or stop the sale of missiles to the Third World countries.
- I know you have other concerns in this area and we are prepared to address them, but pulling the plug on MFN takes away one of our most effective tools in dealing with the Chinese.
- The record will show that we have not only made substantial progress in controlling missile sales, but in trade and human rights issues as well. I am committed to continuing this progress, but we can only do this by engaging the Chinese -- not by walking away from them.
- Will you stick with me and help me solve this tremendously difficult problem?

DATE OF
SUBMISSION: February 24, 1992

Senator Hank Brown (R-CO)

ACTION: _____

Senator James Jeffords (R-VT)

ACTION: _____

Senator Don Nickles (R-OK)

ACTION: _____

Roll Call Vote

Legislative

NO.

31

SUBJECT... *CONFERENCE REPORT*

ON H. R. 2212

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	Akaka	
	Baucus	
	Bentsen	
<i>2</i>	Biden	
<i>3</i>	Bingaman	
	Bond	<i>1</i>
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	Bradley	
	Breaux	
	Brown	
	Bryan	
	Bumpers	
	Burdick	<i>2</i>
	Burns	
	Byrd	
	Chafee	
	Coats	
	Cochran	
	Cohen	
	Conrad	
	Craig	
	Cranston	
	D'Amato	
	Danforth	
	Daschle	
	DeConcini	
	Dixon	
	Dodd	
	Dole	
	Domenici	
	Durenberger	
	Exon	
	Ford	
	Fowler	
	Garn	
	Glenn	
	Gore	
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	Warner.....	5
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11	Wirth.....	
12	Wofford.....	

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United States Senate

WASHINGTON, DC 20510-1901

3/18/92

Jim:

Here's an article by David Li, the chief executive of the Bank of East Asia in Hong Kong.

Mr. Li is coming to the U.S. for a visit the first week in April, and it is Senator Cohen's request that a brief courtesy call/photo with the President be scheduled. Senator Cohen is setting up meetings for Mr. Li with the Senate leadership as well. Senator Cohen believes Mr. Li is a dynamic and influential figure who could be of value to the administration as an informal sounding board and liaison on issues regarding mainland China.

Please let me know how it looks -- thanks for your help.



Optimistic forecast for HK politics

DOMESTIC politics is a new topic for Hongkong speakers. After all, Hongkong historically has had a reputation for being a largely apolitical place.

Since its inception, Hongkong has been very much a refugee territory, with most of its population having fled economic and political uncertainty in China for the relative stability of Hongkong.

Even today, the majority of Hongkong adults either came to the territory as refugees themselves or are the children of refugees.

Over the years, this shared refugee experience has bred in Hongkong a strong scepticism about politics. It was only recently that this scepticism has begun to weaken among the younger generation.

While generally satisfied with the manner in which the territory has been administered, Hongkong people have become more politically active. This is to be expected, given Hongkong's increased prosperity, education levels and exposure to world affairs.

Increased interest in politics has largely manifested itself in calls for greater public participation in the running of Hongkong.

In response, the administration has gradually adapted the territory's political structure to allow for greater "grassroots" involvement in government.

The first elective element was added to the Legislative Council in the mid-1980s, with the creation of functional constituency seats. The council

Bank of East Asia chief executive David Li yesterday delivered a speech titled 'Hongkong: Politics in Transition' to the Japan-Hongkong Society in Tokyo. Here are excerpts of his address.

had previously been a wholly appointed body and unfortunately was widely regarded as a "rubber stamp".

Last September saw the introduction of direct elections for 18 council seats.

The functional constituency system is unique. It formalises the historical model of the Hongkong Government, whereby the administration actively seeks out the views of the business community on key legislation.

Inevitably, it has taken the "new look" Legislative Council time to find its feet. There has been much political jockeying and jousting, as different groups stake out their position and make their views known.

Fortunately, things now appear to be settling down. With hindsight, one could - in fact - draw encouragement from the relative speed with which the various old and new political forces have found equilibrium.

This is not to say that Hongkong has seen the end of political controversy, and a few of our "old guard" may never be able to adjust to the new, more open style. But the "teething period" appears to



DAVID LI: Gradual and pragmatic change ensures stability.

be over. Those of you who have visited Hongkong over the last few months - or who follow our press - may be concerned about the implications of all these developments. Don't be.

People in economies with "established" political systems often forget the long "learning curve" they went through before their present institutions reached maturity.

Hongkong does not want an American, a British, or a Japanese-style political system. Hongkong wants a Hongkong-style political system. And it is going to take time, effort and patience to discover what exactly works best for Hongkong.

Where then are politics in Hongkong heading?

At the moment, we are in a "transitional", or "learning", phase. In the short run, there is admittedly a danger of decreased legislative efficiency. But in the longer term, this will be more than offset by gains in the overall effectiveness of government.

As the "new look" Legislative Council gains experience, it will press the administration to be more accountable and more transparent. This will benefit everyone, not least the international business community.

In other words, we are in a period when the Legislative Council is seeking to define a constructive role for itself.

During this time, the different political elements in the council will have to decide whether they are political "pressure groups" or "parties". At the moment, there is only one group which could be called a political party by international definition.

Certainly, a merging of political groups into a few transparent parties would cut down on the seeming cacophony coming out of the Legislative Council. Such a development might, thereby, enhance the efficiency of the legislative process. But we must be aware that there would be a price, as a valuable diversity of opinion gives way to party platforms.

As you can see, I am ambivalent on this question. But then, I am an independent. However, I am not ambivalent on the question of over-legislation.

As the public becomes more politically aware, the danger exists that the administration may respond to calls for greater accountability by trying to legislate all problems away.

While it is important that the administration heed "grassroots" concerns, falling into the same trap as the United States and "Dying the Death of a Thousand Laws" would do Hongkong no good.

In this context, it is encouraging that members of the "new look" Legislative Council have taken the initiative in warning the administration against this trend.

What about the longer-term outlook?

The Basic Law, which will

serve as Hongkong's constitution from 1 July 1997, guarantees political continuity. According to this document, the governance of Hongkong will remain Executive-led. Equally important, the business community will retain a strong voice in the Government through both the Executive and Legislative Councils.

The policy-making Executive Council, comprising appointed representatives from key sectors of the community, will continue to play a vital advisory role for the administration. Likewise, the continuation of the functional constituency seats in the Legislative Council will ensure that business retains its ability to debate and amend proposed legislation.

Beyond political continuity, these arrangements will work to promote policy consistency and administrative efficiency.

It should be apparent that I am optimistic about the future of Hongkong politics. The way forward may not always be clear, but change - if and when it comes - will be gradual and pragmatic, giving the public, the business community, the administration and Hongkong's apprentice politicians ample time to adapt to the new situation.

The development of a more representative and more accountable government will put Hongkong politics on a firmer footing. Stability will be ensured, with Hongkong remaining a highly competitive and attractive international centre for business, trade and finance.