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State Edits to Remarks by
National Security Adviser Berger

May 2, 2000

Page 3, 3d graph, second line, insert after "disagree": "It will be much worse than the status quo. Commercially, it will put U.S. companies at an immediate disadvantage. European, Japanese and other competitors would receive the full benefits of lower tariffs and the protections recognized and enforced by the World Trade Organization.

P. 5, 3d graph, delete second sentence. [inaccurate as is, and too long to explain correctly here.]

p. 6, last graph, Edit third sentence to read: "They increase China's incentive to work with us at the United Nations . . . "

p. 7, 2d graph, last line, change "grant" to "approve PNTR."

p. 7, last graph, insert "control" after "government." Delete last sentence.

p. 8, insert after end of 2d graph, "That's why important political critics in China support PNTR, too, including Martin Lee of Hong Kong, who is visiting Washington today, as well as Bao Tong, one of Zhao Ziyang's advisors, and Dai Qing, a leading environmentalist.

5/1/00 Final
Orzulak

NATIONAL SECURITY ADVISOR SAMUEL R. BERGER
REMARKS TO THE EAST ASIA INSTITUTE
AT COLUMBIA UNIVERSITY
ON CHINA
NEW YORK, NEW YORK
MAY 2, 2000

It's a pleasure for me to be here today. It seems fitting, at a time when our nation is debating an agreement that will affect our relationship with China for years to come, to come to a place that has contributed so much to our understanding of Asia and its role in the world.

The students who graduate from Columbia in two weeks enter a world where globalization not only has shrunk the map; it fundamentally has altered how the world works. ~~It~~ Today, it is defined as much by global markets as geopolitics, megabytes as megatons.

So it comes as no surprise that the debate over whether we will give China permanent normal trade relations status – called PNTR -- and support its entry into the World Trade Organization is seen by many as essentially a trade debate: Will our workers benefit or won't they? Will we gain jobs or lose them? Will our economy reap the rewards or suffer the consequences? ~~In part~~, that, in part, is what the debate is about. I believe the answers to those questions are clear.

stet

The agreement we negotiated requires China to open its markets in sweeping ways to our products and services. Chinese tariffs, from telecommunications to agriculture, will fall by half or more over the next five years. For the first time, our companies will be able to sell and distribute products in China made by workers in America, without being forced to move factories to China. We will have much better access to a market of over a billion people ~~and~~ that will mean more American exports, growth and jobs. At the same time, this agreement provides safeguards for American producers against any surges of imports in our market from China.

What do we give in return? All we agree to do is maintain the market access we already offer to China and treat China the same as the other 132 WTO members whose trade status is not subject to yearly renewal. That's it. We do not lower our tariffs one cent. We do not in any way, shape or form make it easier for China to sell products in America. And we do not give up any safeguards that protect our market now.

Keep in mind: China will enter the WTO whether we pass PNTR or not. What the Congress must decide is whether America will enjoy the benefits of the agreement we negotiated, or whether we will forfeit those benefits to our competitors in Europe and Japan. The issue is whether, having opened the door of the world's largest market, we are simply going to hold it open for our competitors or walk in ourselves.

That

Some say that rejecting PNTR for China is simply a vote for the economic status quo. I disagree. When your competitors have ~~an enormous~~ advantage over you, standing still means falling behind. In the global economy, companies must produce for global markets to remain competitive. One-third of America's new jobs in this decade have been tied to exports – and 96 percent of our customers lie beyond our borders. We cannot afford to take our prosperity for granted; it depends on what we do, not who we are.

In short, the economic arguments for PNTR are overwhelming. But they are only part of the reason why we should move forward. For this is a ~~an~~ issue ~~of~~ national security as well. What is at stake here is not only how we build our economy but also how we build a safer world. Remember: We have the luxury to focus on expanding prosperity and seeking new markets today because the hard-won victory in the Cold War made possible a world largely at peace, a world in which our values of democracy and openness are ascendant. But this is not a world without dangers. And that ~~That~~ is especially true in Asia – with tensions across the Taiwan Straits, on the Korean Peninsula, in South Asia, and elsewhere.

The United States is a Pacific nation. We have fought three wars in Asia in the 20th Century. Our future is tied to Asia. And the stability of Asia -- economically, politically and militarily -- is inextricably entwined with the stability and direction of China. As China develops over the next decade, the path it illuminates or the shadow it casts will be felt far from its borders.

China will write that future as it answers some fundamental questions: It has extended some freedoms -- but will it gain the stability that can only come from respecting human rights and permitting opposing political voices to be heard? It is reforming its economy -- but will it unleash the essential forces necessary for sustained growth in the information age -- namely access by its people to knowledge and encouragement of innovation? It has become engaged in the world -- but will it make a broad commitment to work within the global system and do its part to address global challenges such as the spread of weapons of mass destruction and climate change? It is growing stronger -- but will it use that strength to build a more secure Asia, or to threaten the freedom of its neighbors?

These are the real questions for us today: How will China evolve, both internally and in the way it relates to the world? And how do we best encourage China to evolve in a constructive direction? It is my strong conviction that approval of PNTR and its accession to the WTO will make ~~it~~ China more likely ~~for China~~ to emerge as a more open, stable, cooperative nation that plays by the rules of the international system and provides greater freedom to its people. If we reject PNTR, I am equally convinced that we will subvert that goal and damage our national security. Let me explain why.

As we in the United States debate the future of our relationship with China, we must remember that there is also a struggle about the future going on today in China. To understand it, we have to understand the profound challenges facing this enormously complex country.

China today is certainly not an open society, but it is more open than it was two decades ago. Over the last 20 years, China has made great progress in building a new economy, lifting more than 200 million people out of abject poverty. In ways that are incomplete, but nonetheless real for millions of ordinary Chinese citizens, the changes within China have given its people greater scope to live their lives.

But China's economy still is not creating jobs fast enough to meet the needs of its people. Only a third of the economy is private enterprise. Today, $300 billion worth of products -- an amount equal to one-third of China's gross domestic product -- sits in Chinese warehouses because they are so poorly made. Meanwhile, at least 100 million people are looking for work. And every year, 12 million more jobs must be created for people entering the workforce.

The more reform-minded figures in the Chinese leadership who negotiated China's entry into the WTO are not blind to these realities. They ~~recognize~~ realize that if they open China's antiquated market to global competition, they risk unleashing forces beyond their control – more unemployment in the short term, perhaps even social unrest and greater demands for freedom. But they have decided that without competition from the outside, without opening their markets, without building their future in cooperation with others, China will not be able to build a modern, successful economy. By agreeing with us to join the WTO, they have made a choice with profound and potentially very positive consequences.

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Why? First of all, that choice can change the way China relates to the world.

China's entry into the WTO -- into the global economy -- will enmesh China into an international system that will hold it to rules and laws universally applied. In fact, for the first time, some of China's most important decisions will be subject to the review of an international body, with binding settlement procedures to resolve disputes.

Opponents say that none of this matters because China will break its promises. The fact is, for the most part, when China has entered into a global treaty regime, its recorc compliance is quite good. This is true for the Biological Weapons Convention, th Chemical Weapons Convention, the Nuclear Non-Proliferation Treaty, and the Comprehensive Test Ban Treaty. China has strengthened its export controls over dangerous materials as a result of these treaties. We still have serious problems w some of China's sales, particularly of missile technology, where China is not boun any international obligations. But overall, China has shown that it is far more likely to abide by international norms when it is operating within an international system that it has embraced. And if China does not comply with all of its WTO obligations, its actions will be subject to rules accepted and judgments enforced by 135 nations. So it is profoundly in our interest to embrace China's entry into the WTO by passing PNTR.

65 ✓

By agreeing with us on the terms of their entry into the WTO, China also has chosen the path of more constructive relations with the United States. A stable, cooperative, clear-eyed relationship with China increases the likelihood that we can cooperate – bilaterally, in the UN Security Council and elsewhere -- on such crucial issues as nonproliferation, regional security, peacekeeping, human rights and arms control. We should have no illusions: problems with China will not disappear, but stabilizing U.S.-China relations contributes to the conditions necessary to deal directly ~~cooperatively~~ with issues of deep concern to us. We will help do that if we now approve PNTR.

PNTR is especially important for our ability to play a constructive role on the issue of Taiwan, particularly at this critical time. Since 1979, we have tried to maintain stability across the Taiwan Strait, by recognizing one China, encouraging a peaceful resolution of differences, and promoting dialogue. China, Taiwan -- and our relationship with both -- have benefited.

Chen Shui-bian, the newly-elected President of Taiwan, recognizes this reality. He knows that good U.S.-China relations are vital for Taiwan's own security because all each ~~three nations~~ benefit from a stable environment. PNTR also is very important for Taiwan economically. Taiwan companies export products from China and benefit from a strong Chinese economy. When China joins the WTO, so will Taiwan. With both in the WTO, economic ties will grow, and so will the costs of confrontation. It is important to understand that Taiwan supports China's membership in the WTO, and is urging us to grant PNTR.

Second of all, China's choice to join the WTO will help change China internally -- hardly overnight, but over the longer-term. To join the WTO, China has agreed to stop protecting its state-owned industries from competition. Why is that important? In the past, virtually every Chinese citizen woke up in an apartment or house owned by the government, went to work in a factory or farm run by the government and read newspapers published by the government. State-run workplaces operated the schools where they sent their children, the clinics where they received health care and the stores where they bought food. That system has been an important source of the Communist Party's power. Now, it is shrinking. And when China joins the WTO, the state sector will shrink faster as the private sector grows stronger. This will speed the removal of government from vast areas of people's lives. In important ways, it will take the command and control out of communism.

Already, many of China's best and brightest are starting companies, or seeking jobs with foreign-owned companies, where they generally get higher pay, more respect, and a better working environment. That causes Chinese companies to improve the benefits they offer their workers to stay competitive. This process will accelerate as China opens its markets. That is the surest way to improve labor standards in China.

At the same time, these changes have increased labor and political activism, and demands for greater representation and accountability. Last year alone, there were more than 120,000 labor disputes across China. In some places, the government has responded by cracking down. But in others, it has responded by giving people a greater say. Local elections are now held in most of China's 900,000 villages, and have been introduced in some cities as well. In many places, workers are taking grievances to court – and winning. This is the start of a process of economic and social change that we should welcome and encourage by embracing China's entry into the WTO.

To join the WTO, China's reform-minded leaders have also chosen to accelerate the information revolution within China. In the past year, the number of Internet addresses in China has more than quadrupled from two million to nine million. This year, that number is expected to grow to over 20 million. When China joins the WTO, it will eliminate tariffs on information technology products, making the tools of communication even cheaper, better and more widely available. The four major Internet providers in China just announced that this year, they will pour more than $1 billion into improving Internet connections.

It's not just the Internet. Today only one in 8 Chinese have a telephone. But just last week, as these changes gain momentum, authorities gave approval for China's mobile phone providers to offer access to more than 40 million new subscribers -- which is expected to grow to 100 million by year's end. When the Chinese people can easily communicate with each other and with people around the world, they will have gained an essential ~~important~~ ingredient for ~~of~~ freedom. And cutting-edge American information technology companies will have a chance to contribute to that process only if we pass PNTR.

There are no guarantees about the future that will come with China's entry into the WTO with U.S. participation. ~~China's future~~ It depends on decisions that its leaders and people are yet to make. There is no assurance that they will choose political reform. But by accelerating the process of economic change, China will be forced to confront that choice sooner, and the imperative for the right choice will be stronger.

Now, some people agree we should let China into the WTO, but believe we should wait until China changes before we approve PNTR. But if I am right that joining the WTO and opening its economy will promote change in China, then the United States should be an instrument of that change, not a bystander.

Others argue that we need an annual vote in the Congress to keep the pressure on China to improve human rights or religious freedom. But for 20 years in a row, this vote simply has affirmed our trading relationship with China. It has become a contentious ritual, not an ~~effective~~ instrument for change. But that does not mean ~~we think~~ that trade should ~~ever~~ be ~~is~~ a sufficient human rights policy or that we should let up the pressure on China to improve human rights. That's why we sanctioned China under the International Religious Freedom Act last year. That's why the State Department issued another tough report on China's human rights record this year. That's why two weeks ago, we sponsored a resolution in the UN Human Rights Commission condemning China's record, even when many ~~some~~ of our friends were unwilling to do so. Reform in China will only come through a combination of internal change and external validation. We ~~can~~ must contribute to both.

I've argued today that China's membership in the WTO and a vote in favor of PNTR will encourage the right kind of change both within China and in how China interacts with the world. At the same time, I am deeply concerned that rejection of PNTR will have serious and substantial consequences for our national security.

Rejecting PNTR is a risky proposition. Rejection will set off a downward spiral that could disrupt stability in Asia, diminish the chance of dialogue across the Taiwan Strait, and deflate hopes for a more constructive relationship between the U.S. and China. Rejecting PNTR would be the worst possible blow to the best possible hope we have had in more than 30 years to encourage positive change in China.

For starters, it will hurt the forces within China that are trying to open that country to change, and help those determined to oppose change at any cost. The very same interests in China most threatened by the decision of its leaders to accept the WTO reforms and open their economy are also the hard-liners on China's course in the world. These are the ones who've argued that cooperating with the US is a mistake; who are ready to settle differences with Taiwan by force; who have the most at stake in selling dangerous technologies around the world. In their view, China should respond to the pressures of globalization by hunkering down instead of opening up.

Because the WTO agreement we negotiated is so manifestly in our economic interest, the Chinese government and people simply will not believe we rejected it for economic reasons. They will suspect that rejection of PNTR is a strategic decision -- whether it is or not -- to pursue a course of confrontation, contention, and containment. And if ~~If~~ we treat

China as an adversary, we are more likely to make it so, and we will find ourselves confronting each other across Asia and the world.

Ask yourself: would we be more secure five or ten years down the road taking that path? What message would we be sending China about the benefits of making concessions to the United States? What kind of progress do you think we would make in China on labor rights, human rights or the environment? What kind of cooperation do you think we would get on critical issues such as proliferation, arms control, and peacekeeping? That too is what is at stake in this decision.

A second consequence of rejecting PNTR is that it could weaken China in ways that would harm our interests. If reformers in China are dealt a blow and China turns inward, economic and environmental degradation would deepen. The hard-line leadership would likely stoke anti-Western nationalism to cope with the resulting social and political strains. In the face of internal decline and uncertain Chinese authorities are likely to clamp down and lash out. ~~We could face larger-scale illegal immigration, stronger criminal syndicates, fewer controls on the spread of dangerous technology~~. If we've learned anything from Japan's long recession and Russia's more economic troubles, it is that the weakness of great nations can pose as big a challenge to America as their strength. ~~I hope we don't have to relearn that lesson on an even larger scale with China~~.

A third consequence of rejecting PNTR would be to increase tensions and instability between China and Taiwan at a critical time. China's suspicions about our motives would increase and our ability to play a positive, stabilizing role would decrease. That is not in Taiwan's interest. That is not in China's interest. And that most certainly is not in our interest.

Fourth, rejection of PNTR would weaken the United States throughout Asia. Every country in the region supports our taking this action. All our friends and allies in Asia regard U.S.-China relations as critical to the future stability, prosperity, and peace of the region. All look to us to strike the right balance -- to avoid the twin threats of Chinese weakness and Chinese belligerence.

¶ Asian leaders could well regard American rejection of PNTR as a sign that America no longer recognizes the basic requirements of our role as a leader in. Because many countries would see these developments, at least in part, as a result of American short-sightedness, we could end up with reluctant and uncertain friends. Japan and the Republic of Korea would be particularly apprehensive under these conditions.

Fifth, and more broadly, I believe rejection of PNTR would send a jarring signal to friends and allies in the world that America is turning inward; that ironically, at the moment of our greatest strength and prosperity, we chose to retreat instead of lead. If America is seen as an increasingly unreliable, increasingly unilateral nation, our capacity to lead on a broad range of issues -- from arms control to global poverty to peacemaking -- would be compromised. That would be a ~~serious~~ deep self-inflicted wound.

The choice before us could not be more clear, or consequential.

By embracing China's membership in the WTO and approving PNTR, by strengthening the reformers instead of the hard-liners in China; we have a chance to encourage the best possible outcome: a China with a leadership that finds strength in partnership with its people and the world. Rejecting PNTR, on the other hand, wouldn't free a single prisoner in China, or create a single job in America, or reassure a single American ally in Asia. It simply would empower the most rigid, nationalistic elements in China. And our friends and allies would wonder why, after 30 years of pushing China in the right direction, we turned our backs ~~now that~~ when it finally appear~~s~~ed ~~to be~~ willing to undergo many of the reforms we have been urging.

We know that the path China takes to the future is a choice only China can make. We cannot control that choice, we can only seek to influence it. Granting China PNTR won't create a perfect China and it certainly won't put an end to all of our concerns. But it will increase the probability of a future of greater openness and freedom for China. It will contribute to a more peaceful and secure Asia. And it will help create a future of greater peace and prosperity for the world our children will inherit.

This is an historic opportunity. It's the right thing to do. I hope our Congress will agree.

Thank you.

THE WHITE HOUSE

Office of the Press Secretary

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As Prepared for Delivery

REMARKS BY SAMUEL R. BERGER
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ON CHINA

The Woodrow Wilson International Center for Scholars
Washington, D.C.

February 2, 2000

Speaking to the Wilson Center is always a challenging prospect. It brings to mind the story of the man who lived through the famous Johnstown flood. All his life, this man would tell everybody he met the story of how he survived. When he died and went to heaven, he asked St. Peter to convene a crowd so he could tell them about the great flood. St. Peter said, "I'd be happy to. But you have to remember one thing -- Noah will be in the audience."

There's more than one foreign policy Noah in this distinguished audience. Indeed, Lee Hamilton himself comes with an entire Ark. For more than 30 years, Lee brought a steady hand to foreign policy in Congress, with the emphasis always on patriotism, not partisanship. I thank him for that.

Last week in his State of the Union Address, the President gave a compelling summary of the challenges America will face in the 21st Century. Looking ahead, there's good reason for optimism. This month, America marks the longest economic expansion in our history. Our military strength is unchallenged. Our alliances are strong. Our values are ascendant in the world. Eighty years after Woodrow Wilson hoped American leadership would help make the world safe for democracy, for the first time ever, more than half the world's people now live under governments of their own choosing.

But as the President said, this is not a world without dangers to us. Our security can be threatened by regional conflicts that pose the risk of a wider war. The march of technology can give terrorists and hostile nations the means to undermine our defenses, and force us to once again live in fear. The stability of the 21st Century can be threatened by an ever-widening gap between rich and poor. And of course, there is the possibility that our former adversaries Russia and China will fail to emerge in this century stable, prosperous, and democratic.

Today, I want to talk about China. Since President Nixon went to China in 1972, the United States has sought to develop a constructive relationship with Beijing, initially as a counterweight to the Soviet Union and later in recognition of China's growing importance in its own right. We have worked for the emergence of a China that contributes to peace in Asia. A China with an economy that is open to American products, farmers, and businesses. A China whose people have access to ideas and information, that upholds the rule of law at home and adheres to global rules on everything from nuclear non-proliferation to human rights to trade.

This year, we have an unprecedented opportunity to advance those goals. The opportunity is China's entry into the World Trade Organization.

But before America can realize the full market-opening benefits of Chinese entry into the WTO, Congress must answer a simple question: will it grant China permanent Normal Trade Relations status, which is the same arrangement we have given to 132 of the other 134 countries in the WTO. Doing so is necessary to guarantee the full market-opening benefits of the agreement we negotiated with China. Or will Congress turn its back on the sweeping changes China has agreed to make and risk losing ground on the issues we all care about?

Every debate on trade must first answer the threshold question: will our economy and our workforce benefit from the terms we've negotiated, or will they suffer? From an economic perspective, there is no denying that this agreement strongly benefits the United States.

For years, China has had open access to our markets, while its markets have been in many ways closed to American products and services. This agreement requires China to make wide-ranging new concessions to open its market, while we have agreed only to maintain the market access policies we already apply to China. Denying China PNTR simply would deprive American companies and workers of the full benefits of China's concessions -- the favorable market access and dispute settlement that our European, Japanese, and other competitors will have.

This agreement will dramatically reduce China's tariffs on everything from agricultural and industrial products to computers and semiconductors. It directly responds to concerns about unfair trade practices in China and allows our businesses to export to China from here at home, and have their own distribution network in China, rather than being forced to set up factories there to sell products through Chinese partners.

That is what this agreement means in principle. Here is what it means in practice.

Consider the auto industry. Right now, a car made in Dearborn faces an 80 to 100 percent tariff before it can be sold in China -- which prices us out of the market. If you want to sell cars in China, you need to base your operations in China. To do that, you must form a joint venture with a Chinese state-run enterprise and give it at least a 51% stake. You also must agree to transfer a significant amount of your technology to China, and teach the Chinese how to use it -- which means you are transferring both your product and expertise to your eventual competitors. And because of local content requirements, most parts have to be made in China, too.

In addition, Americans cannot now directly run parts distribution centers in China, so once your parts are made, Chinese partners have to sell them for you. Americans are not allowed to directly own service centers, either. And all this assumes that Chinese consumers can buy the cars in the first place, because the only financing that is allowed in China is through state-run banks -- and they don't make loans for cars. Little wonder that there are many times more bicycles in China than automobiles.

Under the new agreement, it's completely different. Tariffs on American cars will fall by nearly 75 percent, so we can compete in Chinese markets. The requirement that we have to link up with Chinese enterprises is eliminated. So is the requirement that we have to transfer our technology. And, American manufacturers will now be free to use parts made in America for assembly in China, to set up their own distribution centers, to run their own service shops, and to provide their own financing to consumers.

From our perspective, it means that we're going to sell a lot more American cars and auto parts in China, which means more jobs in America. In return, the Chinese people end up with much better products at lower prices. Take that example and multiply it across our other industries -- from manufacturing to agriculture -- and you begin to get an idea of what this agreement could mean to both our economies.

For our part, we must grant China permanent normal trade relations status. It's important to understand what that means: it simply means that we will give China the same tariff schedule we apply to most every other nation in the world, and China will do likewise. It would eliminate the annual vote on China's trade status, which we do not apply to any other WTO member. Some have said we need the annual vote to address other concerns we have with China, on human rights, proliferation, or religious freedom. But Congress always has the authority to address any part of our relationship with any nation, including China. The annual China trade vote has not been an effective instrument. It simply has affirmed our trading relationship with China for 20 years in a row. What permanent normal trade relations status for China will do is get us out of the cycle we are now in, where the future of Chinese trade comes up every single year for a divisive and not very effective vote.

The economic benefits of this deal to America are clear. If Congress votes no, we risk losing the full, enforceable market access benefits of the agreement, as well as the special protections we negotiated. In a global economy, where global markets are essential, American businesses and workers would be put at an enormous disadvantage, essentially shut off from one fifth of the world. It would be a self-inflicted wound for the economic health of America.

But I believe the economic benefits are only the beginning of the argument. For I am convinced that this agreement is as vital to our national security as it is to our economic security.

Our nation has a tremendous stake in how China evolves. We are a Pacific nation which fought three wars in Asia in the 20th Century. Our future is tied to Asia. And the stability of Asia --economically, politically and militarily -- is inextricably entwined with the stability and direction of China. As China develops, the path it illuminates or the shadow it casts will be felt far from its own borders.

China will write that future as it answers some fundamental questions: It has extended some freedoms -- but will it gain the stability that can only come from respecting human rights and permitting opposing political voices to be heard and felt? It is reforming its economy -- but will it unleash the necessary ingredient of sustained growth in the information age -- namely access by its people to knowledge and unfettered thought? It has become deeply engaged in the international community -- but will it make a broad commitment to play by global rules and do its part to address global challenges like the spread of weapons of mass destruction and climate change? It is growing stronger -- but will it use that strength to build a more secure Asia, or to threaten the freedom and security of its neighbors? Ultimately, the answers will come from China. But we have a enormous stake in encouraging it to choose the path of integration and reform, not confrontation and decline. Bringing China into the WTO will make a big difference.

To understand why, we need to have a clear-eyed view of China, neither looking through rose-colored glasses or through the glass darkly. We need to look at its progress and its problems, its system and its strains, its policies and its perceptions of the world. In the last 20 years, China has made remarkable progress in building a new economy, lifting more than 200 million people out of absolute poverty. One incredible result is that China now has the largest wireless communications network in the entire world, and is linking so many people to one another that it is adding the equivalent of a new Baby Bell every year.

But China faces daunting problems as well. Its working age population is increasing by more than 12 million people -- equal to the population of New England -- every year. Tens of millions of peasants are migrating from the countryside, where they see no future, to the city, where only some find work. China's political system is plagued by corruption. Its air is so dirty that 25 percent of all deaths in China over the age of five come from chronic respiratory disease, four times the U.S. rate. And China's economic growth has slowed just when it needs to be rising to create jobs for the unemployed and maintain support for economic reform.

For all the progress of China's reforms, private enterprise still accounts for less than one-third of its GDP. China's state banks still are making massive loans to struggling state firms, the sector of the economy least likely to succeed. In other words, China cannot maintain stability or ensure prosperity by maintaining the status quo.

What does this mean for us? As the President said when Premier Zhu Rongji visited Washington last year, "if we've learned anything in the last few years from Japan's long recession and Russia's current economic troubles, it is that the weaknesses of great nations can pose as big a challenge to America as their strengths. So as we focus on the potential challenges that a strong China could present to the United States in the future, let us not forget the risks that could be posed by a weak China, beset by internal conflicts, social dislocation, criminal activity, and large-scale illegal emigration -- a vast zone of instability in Asia.

Our interest lies in encouraging both stability and change in China by encouraging it to meet, not stifle, the growing demands of its people for openness, accountability, freedom and reform. Bringing China into the WTO will help in three ways.

First, this is not just an agreement to expand trade between our two countries. It will obligate China to deepen its market reforms and open its economy to the world. It will increase the pace of change in China.

China's top leaders understand that economic change is both essential and risky. It is risky because opening China's antiquated economy to global competition is likely to cause more short-term unemployment and the specter of social unrest. But, interestingly, they also understand that this change is essential because China cannot make the next leap in development without world-class industries and products that can compete in the global economy. And the only way to produce competitive industries is to open the country to outside competition. With this WTO agreement, they have chosen to continue opening their economy, despite the risks that path entails. Do we really want to reject that choice?

The introduction of competition results in natural pressure for progress. A decade ago, China's best and brightest college graduates sought jobs in the government, in large state-owned firms or state-run research institutions or universities. More and more, the best and brightest either are starting their own companies or choosing to work for foreign-invested companies -- where they generally get higher pay, a better work environment, and a chance to get ahead based on merit, not political connections.

U.S. companies are the leaders in the Chinese market in developing human resources -- by emphasizing teamwork and respect for individual rights. In turn, more and more, Chinese firms are learning that unless they change their working style and treat employees with respect, they will lose out in the competition for top talent. This process will only accelerate as China joins the WTO, and we should do all we can to encourage it, because it will lift the standards of Chinese workers -- and their expectations.

Second, by accelerating economic change, the agreement we reached also has the potential to encourage China to evolve into a more open society.

In ways that are incomplete, but nonetheless real for millions of ordinary Chinese citizens, China's economic opening already has given its people greater scope to live their lives. Take Shanghai, for example, the city that has been most open to international influence. Ten years ago, people in China did not own their own homes. Today, 25 percent of Shanghai residents are homeowners. When reforms began, there were no supermarkets, and citizens had to buy food from state-run outlets using coupons. Today, there are more than 1,000 supermarkets and no more rationing of food. A decade ago, Chinese citizens could rarely travel in or out of their own country. Last year, on New Year's Day, airlines added more than 250 flights to international destinations from Shanghai alone. Nationwide, China has seen the emergence of more than one million nonprofit and social organizations -- professional associations, consumer groups, tenant organizations, environmental groups; a 2,500 percent explosion of print and broadcast media; and local elections in the vast majority of the country's 900,000 villages.

Let us understand: these changes do not mean that the people of China enjoy political freedom. Chinese authorities still tolerate no organized political dissent or opposition, and no challenge to the Communist Party. Over the past year, we have see an increase in its crackdown on political activities and dissent; stepped-up controls on unregistered churches; the suppression of ethnic minority groups, especially Tibetans; and the imprisonment of even more dissidents whose only crime is free speech. Because the Communist Party's ideology has largely been discredited in China, and because it lacks the legitimacy that can only come from democratic choice, it seeks to maintain its grip by suppressing other voices.

So let me make very clear: This agreement is not, by itself, a human rights policy for the United States. We must and we will continue to speak out on behalf of people in China who are persecuted for their political and religious beliefs. That is why we pushed for the release of Dickinson College librarian Song Yongyi, who was released just last week. That's why we sanctioned China as a "country of particular concern" under the International Religious Freedom Act last year. That's why we sponsored a resolution last year in the UN Human Rights Commission condemning China's human rights record and why we're doing it again this year. We will continue to press China to respect global norms on non-proliferation; to encourage a peaceful resolution of issues with Taiwan; to urge China to be part of the solution to the problem of global climate change.

With or without this WTO agreement, we will need to continue to work in all these areas. At the same time, I believe this agreement will reinforce and complement these efforts, and help move China in the right direction in fundamental ways.

For example, in the past, the Chinese state was every citizens' employer, landlord, shopkeeper, and news provider all rolled into one. By advancing privatization, this agreement will accelerate a process that is removing government from vast areas of people's lives.

By giving investors and property owners predictability and protection against arbitrary government action, it reinforces the idea that individuals have rights. This will give added impetus to those trying to strengthen the Chinese legal system in a way that allows citizens to hold their government truly accountable.

Finally, by opening China's telecommunications market to cutting-edge American technology and international firms, the WTO agreement will help bring the information revolution to cities and towns across China. A year ago, China had two million Internet addresses. Today, it has nine million. Soon, people in some of the most remote villages in interior China will have access to CNN. And as they become more mobile, more prosperous, and more aware of alternative ways of life, I believe they will seek a stronger voice in shaping their destiny.

Of course, just last week, Beijing announced that it was cracking down on the Internet. It's outrageous -- but it's also futile. In this information age, cracking down on the Internet is like King Canute trying to still the waters. Indeed, the fact that the Chinese government is pushing back against the increasing flow of information to the Chinese people only proves that the changes China is undergoing are real and threatening to the status quo. This kind of repression is not an argument for slowing down the effort to bring China into the world; it's an argument for accelerating it.

In the end, as China opens to the information economy, it can succeed only as it liberates the minds of its people and empowers the individual. In this age, you cannot expect people to be creative economically and frozen politically. At the same time, China may discover that people are far more willing to tolerate wrenching economic change when they have a say in the decisions that affect their lives. Compare the fates of the governments of an autocratic Indonesia and a democratic South Korea as they faced the Asian financial crisis over the past two years. Bringing China into the WTO doesn't guarantee it will make the right choice for political reform. But by accelerating the process of economic change, it will force China to confront that choice sooner, and make the imperative for that choice far more powerful.

How will China change? I believe it will be a combination of internal pressures for a greater voice and external validation of the human rights struggle by the international community. The WTO agreement will bolster the former while we maintain our leadership role in the latter. Our policy should no more be measured week to week or year to year than you could have measured our policy toward the Soviet Union -- with which we continued to engage, even though it posed a much greater threat to us than China does today.

This agreement will advance our national security interests in a third way as well: it increases the chance that in the new century China will be on the inside of the international system, playing by the rules, instead of on the outside, denying them.

Under the terms of this agreement, the Chinese government is obliged to publish laws and regulations. It subjects some of its most important decisions, for the first time, to the review of an international body. Why does that matter?

Quite simply, it applies to China the basic principle at the heart of the concept of the rule of law: that governments cannot behave arbitrarily at home or abroad, that their actions are subject to rules consistently applied. Remember, China is choosing to embrace these obligations. As China becomes a stakeholder in the WTO and other international regimes, it will be more likely to accept the legitimacy of international norms, and define its future within the international community, not outside of it.

I know some say that if China is allowed to join the WTO, it actually will undermine our effort to strengthen global norms in two very important areas: labor rights and the environment. But the fact is, most of the members of the WTO already are developing countries, with the same concerns that trading rules not become an instrument to restrict their growth. China's membership won't change that equation. And considering the fact that China is home to one-fifth of the world's people and the source of a rising share of greenhouse gas emissions, it is hard to imagine an effective global effort to meet those environmental challenges without China.

It's fair to ask: how do we know China will do what it promised to do in the agreement we signed? Of course, we cannot know for sure. But we do have reasons to believe that it will, and mechanisms to reinforce that.

First, China is pledging to open its economy and its markets not just as a means of getting in the WTO, but because most of its leaders believe reform is in China's interest.

Second, as a member of the WTO, non-compliance by China is subject to dispute resolution under the WTO; like any other country, China will confront judgments backed by a 135-member body, rather than being able to chalk up friction to supposed U.S. bullying. Right now, if China treats our products unfairly, we have no recourse, short of pulling the plug on trade. This agreement increases our leverage with China in the event of a future trade dispute. If China does not comply with adverse rulings by the WTO, we are entitled to take equivalent action against China.

In the end, we must and will continue to protect our interests with firmness and candor. But we must do so without isolating China from the global forces that can empower its people to build a better future. That would leave the Chinese people with less access to information, less contact with the democratic world, and more resistance from their government to outside influence and ideas. No one could possibly benefit from that except for the most rigid, anti-democratic elements in China itself. Let's not give them a victory by locking China out of the WTO.

The question is not whether or not this trade agreement by itself will cure serious and disturbing issues of economic and political freedom in China; the issue is whether it will push things in the right direction. President Clinton believes it will. Some of the most courageous proponents of change in China agree. Martin Lee, leader of Hong Kong's Democratic Party, says that without entry to the WTO, "any hope for the political and reform process would also recede." And Chinese dissident Ren Wanding said upon the deal's completion: "Before, the sky was black. now it is light. This can be a new beginning."

It is our shared conviction that supporting this agreement is a new beginning. It is the right thing for America, for China, for Asia, and for the world. It will increase the chance that China will define its future within the international community, and move toward a more open society that upholds the rule of law. That is what is at stake in this debate. Let us have the wisdom to choose wisely. Thank you.

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4/30/00 3:30 a.m.
Orzulak

NATIONAL SECURITY ADVISOR SAMUEL R. BERGER
REMARKS TO
THE EAST ASIA INSTITUTE
AT COLUMBIA UNIVERSITY
ON CHINA
NEW YORK, NEW YORK
MAY 2, 2000

It's an honor for me to be here today. At a time when our nation's capitol and much of the country is debating an agreement that will affect our relationship with China for at least the next 25 years, it seems appropriate to come to this place which has contributed so much to our understanding of Asia and its role in the world. On behalf of a grateful National Security Council, which boasts more than one of your graduates, I thank you for it.

On my way here today, it occurred to me: the way people study the world has changed an awful lot since I graduated from college. When I was in school, students who majored in foreign relations used to compete to see how few economics courses they could take. It was actually considered a badge of honor to get through four years of college without ever having to study an econometric model. Most of my classmates spent their time taking classes on arms control or studying the internal dynamics of the Politburo -- one (funny Russian word or phrase) at a time.

Today, all of that has changed. The age of globalization has shrunk the map and fundamentally altered the way all of us see the world. We live in a world defined more than ever by global markets and dollar diplomacy. I'd bet that most of the students who graduate from this school in two weeks can hardly remember a time when the world was threatened by the Cold War -- but most of them remember when the Asian financial crisis threatened to bring the world to its knees. It's no accident that the kind of students who once got arrested protesting against nuclear weapons or apartheid in South Africa are now marching against the IMF and the World Bank.

So it really comes as no surprise that the debate over whether or not we will grant China permanent normal trade relations status and support its entry into the World Trade Organization is being defined largely as a trade debate: will our workers benefit or won't they? Will we gain jobs or lose jobs? Will our economy reap the rewards or suffer the consequences? I've delivered two speeches largely on those questions alone the past few months.

But this is still a world where our economic security depends first and foremost on our national security. Our markets may define our economy, but it is our military and our diplomacy that still defend our borders. It's especially true in Asia -- which has not only seen missiles fly across the Taiwan straights in 1996, but more recently saw two rivals conduct nuclear tests in successive weeks, the first tests of its kind in nearly 10 years.

Of course, at the center of our concerns about Asia is China. It is the world's most populated nation and largest remaining Communist power. It's also a nation which often defines its interests in the world in ways that are dramatically different from our own and diametrically opposed to our values -- on everything from human rights to labor rights to the environment.

But China is also a country whose system is sagging under the weight of intense internal challenges. How it responds to those challenges will have a dramatic effect on the security and stability of Asia and the world in the 21st Century. As a Pacific nation that fought three wars in Asia in the 20th Century, we have an immense stake in the choices that China makes. The decision we make on China PNTR will have a direct affect in how China evolves -- for good or bad -- and will have profound consequences for our own security.

I want to spend a few minutes today talking about why we believe voting yes on PNTR and supporting China's entry into the WTO is the right thing to do not just for our economy, but more importantly for our security. It is my strong conviction that if China joins the WTO and we approve PNTR, China will likely emerge as a more open, stable, prosperous nation with more freedom for its people -- and define its interests in the world in ways that largely complement our own. But if we reject PNTR, I am equally convinced that we will do great damage to our own national security -- and strengthen the very forces within China that are working to undermine free societies and threaten democratic nations around the world.

As you know, last fall, the United States signed an agreement to bring China into the World Trade Organization, on terms that will open its markets to American products and investments -- which has been a goal of every President, without regard to party, for 30 years. When China concludes similar agreements with other countries, it will join the WTO. But for us to benefit from China's entry, we must treat Chinese trade the same way we do 132 of the other 134 nations of the WTO. We can't discriminate among members, which means we must drop the year to year trade status of China in the United States and give it permanent status just like all the others. Not only is that what we have to do -- that's <u>all</u> we have to do.

Usually, when I explain an agreement we have struck on one issue or another, I have to argue that the benefits gained outweigh the concessions we made. But this time, I don't have to do that. Economically, this agreement is the closest thing you will ever see to a one-way street.

This agreement requires China to open its markets in sweeping and unprecedented new ways to our products and services. Chinese tariffs, from telecommunications to automobiles to agriculture, will fall by half or more over the next five years. For the first time, our companies will be able to sell and distribute products in China made by people here in America, without being forced to relocate to China. At the same time, this agreement provides unprecedented new safeguards against any surges of imports from China.

In return, all we agree to do is maintain the market access that we already offer to China and drop the yearly renewal. That's it. We do not lower our tariffs one cent. And we do not in any way, shape or form make it easier for China to sell products in America. All told, we get a new market of over a billion people that will result in exports and growth and jobs.

The future is going to include China with us or without us. It enters the WTO whether we pass PNTR or not. What is at stake is whether American workers and American businesses will gain the benefits of this agreement, or whether we will say no and forfeit those benefits strictly to our competitors in Europe and Japan. The issue is whether, having opened the door of the world's largest market, we are simply going to hold it open for our competitors or walk in ourselves.

Some say that voting "no" on PNTR is simply a vote for the status quo. I disagree: it's worse than the status quo. In the global economy, our companies must produce for global markets to remain competitive. There is no status quo on this: the issue is whether we are going to move ahead or fall behind. Remember, fully one-third of America's new jobs in this decade are tied to exports. We cannot afford to take our prosperity for granted. It depends on what we do, not who we are.

There are others who say we should just wait a while: depending on how China behaves, we can approve PNTR in three or four years. But in today's economy, you can't sit still while others seize an opportunity. If you think we can give European and Japanese producers a three or four year head start, during which fundamental decisions will be made by China on the future of its telecommunications market and other sectors, and not pay a heavy price, then I've got some carbon paper and vacuum tubes to sell you.

The fundamental question in this debate is not what economic impact will China's WTO membership have on America, because in economic terms, it's a win-win without question. The real question is what effect will it have on China, and by extension, on our national security? Because the PNTR issue has very serious national security implications.

Because the economic benefits are so clear, both the American and Chinese sides view this issue not primarily as a trade vote, but rather as a vote on the entire future of the U.S.-China relationship. When Congress casts its vote the week of May 22nd, it is either going to validate and strengthen the forces within China who want their country to be more open internally and more cooperative with the world; or it is going to hand a victory to the hard-liners whose last memorable moments on the world stage -- besides the mass arrests of the Falun Gong and the latest threats on Taiwan -- was the crackdown in Tiananmen Square.

Let me explain.

As we debate China in our country, we must understand that there is a debate about the United States -- and the future of China -- going on in China today. To understand the debate, you have to understand the situation occurring in China.

China today is certainly not an open society, but it is more open than it was two decades ago. Over the last 20 years, China has made great progress in building a new economy, lifting more than 200 million people out of abject poverty. Nationwide, it has seen the emergence of more than a million nonprofit and social organizations, and a 2,500 percent explosion of print and broadcast media.

But the economy still is not creating jobs fast enough to meet the needs of its people. Only a third of the economy is private enterprise. Last year, despite potentially being the world's largest economy, only six Chinese companies, all of them state-owned, made it to the list of the Fortune 500. Today, $300 billion worth of products -- an amount equal to one-third of China's gross domestic product --is so poorly made that it sits in China's warehouses [Source: the Economist]. Meanwhile, China's workforce is increasing by 12 million each year. At least 100 million people are looking for work. And in urban areas alone, it's been estimated that China needs to create 18 million jobs per years just to keep up.

Leaders in China look at this situation, and basically break into two camps.

On one hand are the more progressive leaders who negotiated this agreement with us. They're not boy scouts, but they're not blind to reality, either. They realize that if they open China's antiquated market to global competition, they risk unleashing forces beyond their control -- temporary unemployment, perhaps even social unrest, and greater demands for freedom. But they have concluded that without competition from the outside, without opening their markets, China will not be able to build a modern, successful economy. By agreeing with us to join the World Trade Organization, they have made a choice that will have profound consequences.

On the other hand are leaders whose response to this challenge is to clamp down the vise of Communism even harder. And no surprise: the very same forces in China who are most threatened by the decision of its leaders to accept the WTO reforms and open their economy to outside competition are also the hard-liners on China's course for the world. These are the same people who have always believed that cooperating with the United States is a mistake; the same people wh don't want their country to be part of the world; the same people willing to settle differences with Taiwan by force; the same people most threatened by our alliance with Japan and Korea; the same people who want to keep the Chinese military selling dangerous technologies around the world; the same people whose first instinct in the face of opposition is to throw people in prison. In their view, China should respond to the pressures of globalization by hunkering down instead of opening up.

Now, which group do you think we would be more secure with five or ten years down the road? By voting with the people who recognize how much China has to gain by opening up to the world? Or by casting our lot with the people who have the most to lose if the Communist system loosens its grip? Which group do you think would make the most progress on labor rights, environmental rights, and human rights? The reformers or the hard-core communists? That's what the PNTR vote is all about.

Since 1972, every American President has worked for the emergence of a China that contributes to peace and stability in Asia. A China that respects the rights of Taiwan. A China whose people have access to ideas and information, that upholds the rule of law at home and adheres o global rules on everything from nuclear non-proliferation to human rights to trade. Voting yes on PNTR will advance all of those goals in unprecedented new ways.

Granting PNTR will increase economic independence, giving more people on each side a solid stake in keeping our ties on an even keel. It will strengthen the changes that are underway in how the domestic system operates and will bolster those who recognize the enormous important of good U.S.-China ties to accomplishing their goals. And over time, it will improve China's economic performance, which will bolster the confidence of Chinese leadership in ways that reduce their fears about political reform.

Just last month, the President spoke at length about the positive internal changes that supporting this agreement could bring to China, in three important ways.

First, China's entry into the WTO -- into the global economy -- will enmesh China in the world. They have chosen to join an institution that sets rules and expects its members to abide by them. In fact, for the first time, some of China's most important decisions will be subject to the review of an international body, with binding settlement procedures to resolve disputes.

Opponents say that none of this matters, because China will break its promises. The fact is, when China has entered into a global regime, their record of compliance is quite good. This is true for the Biological Weapons Convention and the Chemical Weapons Convention, the Nuclear Non-Proliferation Treaty, and the Comprehensive Test Ban Treaty. It has lived up to its agreement with us to stop providing assistance to Iran's nuclear program. We still have problems with some of China's sales, particularly of missile technology, to countries in unstable regions. But overall, China has shown that it is far more likely to abide by international norms when it is operating within an international system that it has embraced.

And if China does not comply with all of its obligation, we still are better off having it in the WTO, because then its actions will be subject to rules embraced and judgments enforced by 135 nations.

Second, by joining the WTO, China has also chosen to stop protecting its state-owned industries from international competition from the private sector. Why is that important? In the past, virtually every Chinese citizen woke up in an apartment or house owned by the government, went to work in a factory or farm run by the government, and read newspapers published by the government. State-run workplaces also operated the schools where they sent their children, the clinics where they received health care, and the stores where they bought food. That system has been a big source of the Communist Party's power. Now, people are leaving those firms. And when China joins the WTO, the state enterprise sector will shrink faster and the private enterprise sector will grow faster. That will speed a process that is removing government from vast areas of people's lives. In important ways, that will take the command and control out of communism.

Already, many of China's best and brightest are starting companies, or seeking jobs with foreign-owned companies, where they generally get higher pay, more respect, and a better working environment. That causes Chinese companies to improve the benefits to their workers to stay competitive.

At the same time, these changes in China have increased labor and political activism, and demands for greater representation and accountability. Last year alone, there were more than 120,000 labor disputes across China. In some places, the government responded by cracking down. But in others, it has responded by giving people a greater say. Local elections are now held in the majority of China's 900,000 villages, and they have been introduced in some big cities like Shenyeng as well. In some places, workers are taking grievances to court -- where they increasingly are winning. This is the beginning of a process of economic and social change that we should welcome and encourage -- a process that will accelerate when China enters the WTO.

Third, by signing this agreement, the reformers in China have chosen to accelerate the information revolution in China. In the past year, the number of Internet addresses in China has more than quadrupled from two million to nine million. This year, that number is expected to grow to over 20 million. When China joins the WTO, it will eliminate tariffs on information technology products, making the tools of communication even cheaper, better and more widely available.

The four major Internet providers in China just announced that this year, they will pour more than $1 billion into improving Internet connections. Today, only one in ___ Chinese are linked to each other and the world by telephone. Just last week, authorities gave approval for China's mobile service providers to offer wireless Internet access to more than 40 million mobile phone subscribers -- which is expected to grow to 100 million by the end of next year. When the Chinese people have the ability to easily communicate with each other and people around the world, they will have gained an important ingredient of freedom.

In the end, China will learn what every other nation of the world is learning today: creativity is indivisible. When you give people the tools for economic innovation, you also give them the tools for political empowerment. Bringing China into the WTO doesn't guarantee that it will choose political reform. But accelerating the process of economic change, it will force China to confront that choice sooner, and it will make the imperative for the right choice stronger.

And change within China is likely to lead to positive change on the outside.

Good U.S.-China relations bolster reformers in China, and the reformers in turn want good U.S.-China relations. When reform and opening are moving forward, China become more cooperative on such crucial issues as nonproliferation, regional security, peacekeeping, human rights, and arms control. It is also likely to be a more constructive and cooperative player at the United Nations, where we share a crucial vote on the Security Council. These problems do not magically go away, but stabilizing U.S.-China relations creates both the atmosphere and trust necessary to deal cooperatively with bilateral, regional, and global issues of deep concern to us.

That's especially true of Taiwan. Since 1979, we have played an important role in maintaining stability across the Taiwan Straits, by recognizing one China, encouraging a peaceful resolution of differences, and promoting dialogue. China, Taiwan -- and our relationship with both -- have benefitted.

The election of Chen Shui-bian last month as President of Taiwan has created new uncertainties. Although Chen ran on a platform calling for three direct links with China (shipping, communication, and air), his party traditionally has been pro-independence, a step we don't support and China finds immensely threatening. This is a period in which we should be encouraging both sides to act responsibly and seek dialogue, not one in which we forfeit our influence by turning our backs on China.

For his part, Chen recognizes this reality. He knows that good U.S.-China relations are vital for Taiwan's own security because deep Chinese suspicions of American motives lead Beijing's leaders to be too suspicious to dare to exhibit the flexibility required to reduce tensions across the Strait. Particularly at this sensitive time, Chen wants us to be sensitive to the needs for cross-Strait ties to develop. Economically, PNTR is also very important for Taiwan because Taiwan uses the Mainland as a platform for much of the production that it exports to the United States. Cross Strait economic ties benefit Taiwan both economically and politically with China.

Keep in mind that Chen Shui-bian's inauguration is on May 20th, and the House vote on PNTR will take place during the following week. He strongly supports China's membership in the WTO, and is urging us to grant PNTR. He understands the importance of the stability that comes from good U.S.-China relations and China's membership in the WTO. The people of Hong Kong also want us to approve PNTR, including the courageous leader of Hong Kong's Democratic Party, Martin Lee.

Until a decade ago, the Cold War provided the strategic rationale for U.S.-China relations. A favorable vote on PNTR will have long term effects that significantly strengthen our view of the Post Cold War international order, an era in which major power cooperation is core to our national security.

Many people agree that bringing China into the WTO is a good thing, but say we can just pocket this progress and still vote no on PNTR. They argue that we as a nation need the annual vote to address concerns we have with China, for example, on human rights or religious freedom. I agree that we must keep the external pressure on China to improve human rights. As the President has said many times in the past, reform in China will come through a combination of internal change and external validation.

Unfortunately, as I said earlier, we don't have the luxury of either reaping the benefits of a vote in favor of PNTR or simply maintaining the current status quo. We will have to either adopt PNTR with all its benefits or reject it and face all the costs of doing so. And in national security terms, those costs are a matter of grave concern.

Just think about the consequences of voting no. Now remember, many of the hard-liners in China who oppose this agreement believe our intent is hostile -- to encircle, weaken, and contain China. Because this agreement is so manifestly in our economic interest, the Chinese government and people will not believe we rejected it for economic reasons. It will interpret rejection of

PNTR as a strategic decision by the United States -- whether it is or not -- to pursue a strategy of confrontation, contention, and containment.

This can tip the scales in the debate that is taking place in China in favor of the hard-line Communists who want to tighten the internal clamps, invest more heavily in the military-industrial complex, and hunker down for the "inevitable" struggle with America bilaterally, regionally, and globally. The Chinese will be far more likely to read hostile intent, in their view, of a U.S. desire to encircle and destabilize China into every American move. If we treat China as an adversary, we are more likely to make it so, and will find ourselves confronting each other across Asia and across the world.

I believe a "no" vote on PNTR would undercut the reform-minded leaders who signed this agreement with us, who have put their reputations and careers on the line for a policy of greater openness -- the very people who have gone out on an enormous limb to reach out to the world, to open their economy, and take all the economic risks associated with it. What kind of message do you think that will send to future reformers in China: do business with the United States, and you're going to get burned.

The anti-reformers will also probably seek to obstruct WTO-mandated change and constrain the foreign presence in China. China's economy will not perform as well under these circumstances, and the hard line leadership would likely stoke anti-Western nationalism to cope with the resulting social and political strains.

It is also easy to imagine why China's increased threat perceptions regarding the U.S. would impact on Beijing's willingness to cooperate with us in containing proliferation, strengthening arms control, expanding peacekeeping and cooperative humanitarian efforts, and reducing environmental threats. Instead of viewing each of these arenas as an opportunity for strengthening U.S.-China relations, the Chinese would see each as a potential ground for undercutting U.S. initiatives. Both the Chinese and the United States would be poorer for this development.

That's especially true on Taiwan. A rejection of PNTR would increase tensions and instability between China and Taiwan at a critical time. Economically, a no vote will create a serious drag on U.S.-China trade, which could force Taiwan to shift its US-oriented production elsewhere. Failure to adopt PNTR would undercut Chen Shui-bian's goals and reduce both Taiwan's economic well-being and security, and empower all of those people within China who are willing to settle differences with China by force.

I am also concerned that a no vote on PNTR could weaken China. This is a society at a crossroads that has made a decision to open itself economically with some recognition of the risks involved. If that decision is rejected by the number one power in the world, the resulting Cold War between our two nations could have an effect. If we have learned anything from Japan's long recession and Russia's economic troubles, it is that the weaknesses or great nations can pose as big a challenge to America as their strength. If reformers in China are dealt a defeat and China turns inward, the economy could slow, economic degradation could deepen, social tensions could rise, and the political system might not be able to cope. If that happens, we could face larger-scale illegal emigration, stronger transnational criminal syndicates, greater proliferation of nuclear and missile technology, and uncertainty in a region that straddles the heart of Asia from Japan to central Asia and from Russia to Vietnam. Our interests in China's governing itself well and meeting the requirements of its huge population are, in short, not merely abstraction or humanitarian. They are concrete and wide ranging. Should this come out wrong, America will have to focus on massive problems that we should be able to avoid. [NOTE TO SANDY: I understand the point you made about this paragraph, and we could easily move it to the end. However, since Ken couched it so differently by following it up with the point about our Asian allies, it certainly works better, and may carry the argument. I leave it to you to decide].

All other Asian countries, regardless of political and economic system, understand this fundamental reality. That is why, even though some will face markedly tougher economic competition from China once it obtains PNTR, every single one of them supports this measure. In fact, all Asian capitals regard U.S.-China relations as critically important for the future stability, prosperity, and peace of the region. All look to us to strike the right balance so that we can avoid the twin threats of Chinese weakness and Chinese belligerence. All, in short, want stable, constructive U.S.-China relations.

I have seen time and time again that seemingly abstract elements such as confidence and trust play a profound role in international relations. Asian leaders could well regard American rejection of PNTR as a sign that America no longer recognizes the basic requirements of our role as a leader in Asia, and they will adjust accordingly.

If the worst case should occur and rejection of PNTR lead, ultimately, to U.S.-China confrontation across Asia, we will hold our own but at potentially very significant cost. Because many countries will see these developments as, at least in part, a result of American rigidity, we may have reluctant and uncertain friends. Fundamental political conflict could spill over into trade and disrupt natural markets and regional prosperity. Trouble spots in the region will be harder to resolve. Japan and the Republic of Korea may become particularly apprehensive under these conditions.

Lastly, and more broadly, I believe rejection of PNTR would send a penetrating signal to friends and allies in the world -- particularly after the Senate's rejection last year of the Comprehensive Test Ban Treaty and the rejection of Fast Track the year before -- that America is turning inward; that at the moment of our greatest strength and influence, we chose to retreat instead of lead. If America is seen as a increasingly unreliable, unilateral nation, our capacity to lead on a broad range of issues -- from arms control to global poverty to AIDS -- would be severely compromised. That would be a tragic mistake.

By embracing China's membership in the WTO and voting yes on PNTR; by siding with the reformers instead of the hard-liners in China; we have a chance to encourage the best possible outcome: a China with a leadership that finds strength in partnership with its people and the world. Voting against PNTR, on the other hand, won't free a single prisoner in China, or create a single job in America, or reassure a single American ally in Asia. It will simply empower the most rigid anti-democratic elements in the Chinese government. It would leave the Chinese people with less contact with the democratic world, and more resistance from their government to avoid outside forces. And our friends and allies would wonder why, after 30 years of pushing China in the right direction, we turned our backs, now that it finally appears to be willing to take us up on it.

We know that the path China takes to the future is a choice only China can make. We cannot control that choice, we can only influence it. But we do have complete control over what we do. As the President has said, we can work to pull China in the right direction, or we can turn our backs and almost certainly push it in the wrong direction. Granting China PNTR won't create a perfect China and it won't put an end to all of our concerns. But it will increase the probability of a future of greater openness and freedom for China. It will lay the foundation for a more peaceful and secure Asia and the world. And for the Columbia class of 2000, it will help create a future of greater peace and prosperity for the world they will inherit.

This is an historic opportunity. It's the right thing to do. And we're going to continue to do all we can to convince Congress and the American people to support it. Thank you.

WHY PNTR IS BEST HOPE FOR GREATER OPENNESS IN CHINA

By Gene Sperling and Samuel Berger

Many opponents of Permanent Normal Trade Relations (PNTR) for China argue we should not embrace China's membership in the WTO because of its abysmal record on human and labor rights. Their diagnosis is right. But their prescription is not. The question before the Congress is not whether China's record on human rights is good or whether PNTR will provide a cure. The question is, in addition to the overwhelming economic benefits to America, will passage of PNTR increase the chance of positive change in China?

We believe it will. We base that belief not on faith that trade always brings freedom – trade has clearly not yet done that for China. We base it on the conviction that the concessions China is making to enter the WTO will empower reformers trying to move it in the right direction.

The divisions within China are clear. Those advocating WTO membership and closer ties with America are the same leaders pushing a more daring transition from command-and-control to the market. They realize that if they open China to global competition, they risk unleashing forces beyond their control -- temporary unemployment, social unrest, and greater demands for freedom. But they have concluded that without competition, China will not be able to build a modern, successful economy.

The opposition? The entrenched state-owned manufacturing sector and those Communist officials clinging desperately to one-party control over how people work and live. They know that if China slashes protective tariffs to get into the WTO, more of its state enterprises will go belly-up. The government's ability to control workers and to purchase their loyalty will diminish. There will be more social and political ferment all over China – and more pressure for change.

Last year alone there more than 120,000 labor disputes across China. In some places, the government has cracked down. In others, it has responded by giving people a greater say, by holding local elections and allowing workers to take grievances to court. That is how real change can begin. How would we be promoting change by handing a humiliating defeat to market-oriented reformers seeking normalized trade with the United States and a huge victory to the stalwarts of a state-dominated economy?

If China enters the WTO and we approve PNTR, the resulting greater participation of U.S. telecommunications companies will also make telephone and internet access more affordable and accessible for Chinese citizens. Right now only 12 percent of Chinese have phones; less than 1 percent have internet access. No matter how hard Chinese officials try to stuff the information genie back into the bottle, an explosion of telephone and internet access will lead to an explosion of idea sharing within China. But if we reject PNTR, our cutting edge information industries will be denied preferential access. How would that help Chinese citizens seeking new ideas – or new tools for political activism?

Finally, as Martin Lee, the courageous leader of Hong Kong's Democratic Party has said, participation in the WTO would "bolster those in China who understand that the country must embrace the rule of law…." Economic activity in China is usually based on vague, unwritten, unpublished rules that maximize the arbitrary power of Party officials. To join the WTO, China must publish key rules, making it easier for Chinese citizens to advance on the strength of their ideas, not their connections.

Two caveats: First, membership in the WTO does not guarantee China's leaders will ever choose political reform. But by accelerating the process of economic change, it will force them to confront that choice sooner, and it will make the imperative for the right choice stronger. By the same token, if we reject PNTR, and undercut the reform-minded leaders who have put their reputations on the line for a policy of greater openness, we will increase the likelihood of the wrong choice.

Second, PNTR is not by itself a human rights policy for China. Change will come through a combination of internal pressure and external validation of China's human rights struggle. We have to maintain our leadership in the latter, even as the WTO contributes to the former. That's why we sanctioned China under the International Relgious Freedom Act last year, and why last month we again sponsored a resolution in the UN Human Rights Commission condemning China's human rights violations.

Those who oppose PNTR have little vision of how a "No" vote would further reform in China other than maintaining our annual vote to threaten the close of our market to Chinese goods (at considerable cost to millions of American families). Yet, after twenty years, this annual ritual has become just that – a ritual. [Members of Congress like Democratic Rep. Levin and Republican Rep. Bereuter have been exploring more positive avenues for pressuring China on human rights issues if PNTR were to pass.]

As the President has said, we do not know what path China will take. All we can do is make the decisions most likely to push China in the direction of economic and political reform. It is hard to see how freezing the status quo, empowering hard-liners, slowing economic transition, and keeping American companies out of China will increase respect for human rights or lead to a more open society. It is possible, however, to see a better future for China if it is opening its economy and reaching out to the world. The choice for us could not be more clear.

the treatment of foreign companies in China. They do not get a rawer deal than local ones. Rather, they are usually side-swiped by restrictions that hit deserving domestic companies harder. Indeed, foreigners often have investment privileges denied to locals. Yet it is these home-grown outfits that hold the key to the future. The real significance of China's WTO membership is not as a bonanza for foreigners, but as a rod for the forces of reform to beat back a still stifling state and to build up the rule of law.

The Chinese state will no doubt continue to resist. China's membership of the WTO will assuredly place strains on that organisation, as the socialist legacy of protectionism clashes with international trading rules. There are risks here for the West. But is the WTO so weak an organisation that the clash will mortally harm it? China's trade with the rest of the world is still smaller than the Netherlands'. And, even realistically imagined, the potential prize of admitting China is still worth having: a continental-sized, more liberal economy that promotes regional stability where now it lends instability.

What of China as a rising international menace? As our article 1002 points out, China's armed forces, though capable of regional mischief over Taiwan or disputed claims in the South China Sea, are still far from being the fighting machine its generals seem to want outsiders to believe. In other ways, China is slowly starting to conform to accepted international practices. It has signed the Nuclear Non-Proliferation Treaty and the Comprehensive Test Ban Treaty. Under American pressure, it has started to curb military and nuclear sales to unstable states, such as Iran and Pakistan. And it takes part in regional talking clubs, albeit with a determination to keep Taiwan either out or down.

The reason is that China wants its rightful place at the top table of nations, and enjoys the back-slapping that comes with it. Its leaders want economic prosperity too, since their rule rests upon it, and membership of the WTO seems the only way to achieve it. China may rant about American "hegemony" but, step by step, it is surrendering to an international order that, while often American-led, enjoys broad support.

Raising the standard

This is the level-headed case for engaging China. But engagement is not certain to transform it for the better. Capitalist economics and communist politics cannot coexist for ever: the risks of instability will grow, as the demands for a liberalised economy clash with an illiberal state. If China turns militaristic, even fascist, the West will have to contain the threat that poses, as it has done before. Perhaps the greater peril would be a collapse of central authority under severe economic strain. Such an upheaval would not necessarily bring democracy. It might intensify concerns about weapons proliferation, illegal emigration and international crime.

Whether the worry is about China's future strengths or weaknesses, its uncertain future makes the pursuit of diplomacy with it that much harder. Opting for illusion over reality, some western governments treat China's weaknesses as strengths, overlooking the regime's disdain for human rights and its intermittent bullying of its smaller neighbours, in the hope of winning commercial favours from the state. Better to be clear about the international standards expected, whether on trade, human rights or the use of force, and deal with China on all fronts. For China is not a monolith. As it changes, so the

40TH STORY of Level 1 printed in FULL format.

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April 08, 2000 , U.S. Edition

LENGTH: 2111 words

HEADLINE: Now comes the hard part

HIGHLIGHT:
China looks set to change as much in the next five years as in the past extraordinary 20, says Dominic Ziegler

BODY:

"IF YOU think," says a high administration official in Washington, DC, "what will be required for economic success in the globalisation that is exploding around us -- technically dynamic, information-rich, highly entrepreneurial -- then the winners in that environment will be those able to provide at least the following..." He counts on his fingers. "Free access to global information and markets. Protection of physical and intellectual property. People able to speak and associate freely. A government that has sufficient legitimacy to feel comfortable joining the global economy. An educated population. And a rules-based polity...This is a set of qualities that does not conform to a highly authoritarian system." That, put simply, is the case for political change in China.

In the past few years, two uncertainties about China have cleared themselves up. The first is that China's central government has committed itself wholeheartedly, irrevocably and (to all but the dimmest apparatchiks) unambiguously to creating a market economy at home, tied to the world at large. This is not because China's septuagenarian leaders, all former central planners, have become born-again liberals (although a surprising number of liberals are moving up through the ranks). Rather, the remnant Maoists have long been banished to the wings, from where they shout ineffectually from time to time. Meanwhile, the remaining dominant factions -- whether their leaders are gung-ho reformers, cautious conservatives or nationalists who see economic success as the basis of future power projection -- all agree on one thing: the Communist Party is history unless it can deliver growth. And for each of the past seven years now, China's stellar economic growth has been slowing, risking unmanageable dissatisfaction amongst the people.

So Zhu Rongji, the prime minister, by temperament and training an engineer, not a free-marketeer, and popular neither with his peers in the Politburo nor with minions, has had his reforming way all the same. New sources of growth, he insists, have to be found by drastically (and painfully) shrinking the state. The 15th Communist Party Congress in the autumn of 1997 was a watershed. It marked the start of this new phase with the suggestion that tens of thousands of small and medium-sized state enterprises would be cast loose upon private waters, to float or sink. In the spring of 1999, guarantees that acknowledged the private sector for the first time were written into the state constitution.

Growth from heaven

The first two decades of reform have in essence been catch-up growth, gains that came from disbanding the agricultural communes and from allowing capital and particularly labour to be poured into low-end manufacturing and processing, a lot of it for export. The government did not really have to do anything to foster such growth, other than to keep out of the way. Double-digit growth rates were the norm, and fast growth created new jobs for workers made redundant by inefficient state-owned enterprises, migrants from the countryside to urban areas, and young people looking for their first job.

Now those high growth rates are gone, possibly for good. Growth is not only lower these days, but its "labour intensity", according to Yukon Huang, head of the World Bank's mission in China, has also slowed. What growth China is achieving is creating fewer jobs.

"We have run out of easy things to reform," explains a senior Chinese official. Laying the foundations for the next phase of growth will be very much harder. The productivity of the land -- and remember that two-thirds of China's 1.3 billion people still live in the countryside -- has almost reached its natural limits, given China's severe shortage of water. Higher productivity in agriculture will come at the price of even more people leaving the land for urban areas -- perhaps 8m-10m a year, for whom jobs will need to be found. Another 6m jobs need to be created in the cities just to allow for the modest natural increase in the urban population each year. Then there are the 4m-7m a year being thrown out of work by shrinking state-owned enterprises. That is a minimum of 18m urban jobs that the economy must create every year for the next few years. But from where? The woes of China's industrial sector are well known, and the service sector has been so stunted by the country's socialist legacy that it is only half the size expected for a country at that stage of development.

The possibility is there for a prolonged industrial slump and a restive population. For China's leaders, that prospect tilts the balance of risk and reward in favour of serious structural change and market reforms -- short-term pain that should, touch wood, lay the foundations for long-term growth and, they think, for the party's long-term survival. Hence the radical commitment to a private sector that breaks free from a predatory state, to cleaning up the state sector over the next few years, and to membership of the World Trade Organisation.

After years of procrastination, China has at last shown itself to be serious about doing what is necessary to join the WTO. After NATO's bombing of the Chinese embassy in Belgrade last summer, relations with the United States deteriorated sharply, and Zhu Rongji's future was in doubt. Despite these tensions, China signed a trade deal with the United States in November to pave the way for WTO accession, possibly later this year. Membership will prove as momentous a step as Deng Xiaoping's "opening to the world" in late 1978.

This helps resolve a second uncertainty, which is whether China can bring about a smooth and successful change to an open economy under a political system that remains highly authoritarian, indeed Leninist. The answer, as the American official suggests, is that it cannot. This survey will argue that in the next three to five years, China's closer integration with the world economic order will increase the pressure on it to become much more open, liberal and receptive. That, in turn, will force profound changes on both its political system and its society.

Until now, China's Communist leaders have been able to scorn predictions of political change, and to repress demands for it. They have two decades of growing prosperity to point to, certainly the swiftest, most extensive rise out of poverty any nation has seen. All the same, says a senior official in the Chinese government (one of the liberals), "Given globalisation, in all its meanings, the mainland Chinese are no longer satisfied to look back at the change in the past 20 years. They want to be like Chinese in Hong Kong or the US, or they want to be like Japan...Politicians are not given much time these days." Not even authoritarian ones like China's, with strong powers of coercion -- although admittedly these are not as strong as they were.

Out into the unknown

Lazy editorial writers in the liberal West assume that a free-market economy can be introduced, as one exasperated Chinese economist puts it, with the wave of a central planner's wand. And democracy, too, he might have added. This is not to say that free markets and accountable government in China are out of the question. Cultural impediments to them are not as serious as political ones. The country's vast size, its poverty, and its legacy of a command economy surely need to be taken into account in guessing how swiftly and how smoothly free markets and democracy can be introduced -- and how the interests of the central government and the varied periphery can be reconciled.

China's sheer size requires an active effort to comprehend. The country's 1.3 billion people make up one-fifth of the world's population, but they live on only one-fifteenth of the world's land. In fact, because a large part of China is inaccessible and inhospitable, the density in the main population centres is much higher than those figures suggest. Two-thirds of mainland Chinese live in the fertile eastern fifth of the country.

Mao Zedong once said that China was like "another United Nations". At present it has 31 provinces, if you include the four municipalities with province-level status and the five "autonomous regions", which (especially in the case of Xinjiang and Tibet) are anything but autonomous. In addition, there are the two "special administrative regions", Hong Kong and Macau. Thanks to their closely policed territorial borders with the "motherland", they really are special and autonomous.

Think, for a moment, of the provinces as if they were separate countries. By land area, the biggest is Xinjiang, three times the size of Spain, although with less than half of Spain's population. China's largest city, Shanghai, has five times the population of Singapore. The most populous province, inland Sichuan, has over 110m people, about as many as Japan. Guangdong, Hubei, Anhui, Hunan, Hebei, Jiangsu, Shandong and Henan each have between 59m and 93m people, that is, populations very roughly the size of Egypt, France or Mexico. The Guangxi Autonomous Region, with 46m people, is more populous than Poland, yet how many people would be able to pinpoint it unhesitatingly on a ? And this paragraph has mentioned fewer than half of China's provinces.

Or look at China's GDP per head. The national average (excluding Hong Kong and Macau) was $735 at 1998 prices, which makes China somewhat poorer than

Indonesia. That average, though, conceals great regional inequalities. The poorest province, Guizhou, has a GDP per head of $280, on a par with Bangladesh or Yemen. Sichuan, with a figure of $525, is level with Pakistan. Meanwhile, Shanghai's residents, at $3,400, are up there with Turkey or South Africa. Now bring in Hong Kong, which at $22,990 has a higher per-head income than Britain, its former master. The dozing commuter on the Star Ferry is likely to be 90 times wealthier than the vegetable-seller in Guizhou.

Town and country

Regional inequalities, then, are a serious matter, and Beijing's leadership is at last beginning to wake up to them. Equally serious is the wealth gap between city and countryside. In cities, 90% of households have washing machines and colour televisions. On farms, the most widely owned consumer durable, found in 70% of all households, is the sewing machine. Least remarked upon, but equally serious, are huge differences in wealth within the same locality, along with dire cases of poverty, even on the "prosperous" eastern seaboard.

Bearing in mind China's sheer scale, variety and relative poverty, it is hard to see how a monolithic leadership in Beijing can prevail in the longer term, now that the Chinese people are no longer in thrall to Maoism. (And remember that even under Mao Zedong, during the Cultural Revolution, anarchy rather than central rule held sway for ten years.) Indeed, far from being monolithic, China's political system, both in the regions and at the centre, is one of sharp elbows and centrifugal forces. Yet at the same time China has refused to break up into a warring mess of baronries, as many western experts had predicted.

Until now, the centre -- that is, perhaps no more than 200 unelected, often elderly, men -- have by and large kept control of the reform process and of the country as a whole. In simple terms, they have done so by devolving responsibility for economic growth to the local level, whilst enforcing party discipline by keeping control of the hiring and firing of local and provincial officials. Crucially, they have attempted to recentralise the collection of tax revenues and, more successfully, the rationing of credit to the state sector. With implications that have gone largely uncommented on in the West, a de-facto federal system may evolve in China that could possibly form the template for future political and institutional change. It could even help solve what is currently the biggest threat to the region's security: the question of Taiwan.

Predicting that political change will come is the easy bit; predicting how it will come about is harder. And the outcome will not necessarily be happy. Integration with the world economic order will also mean more opportunities for friction, aggravating the sores of China's formerly centralised economy. The opportunities for corruption that will arise from state assets being stripped by officials and managers of state enterprises are also a cause for pessimism.

China's history is full of shimmering metaphors, parallels and examples that usually help to throw light on current events. But this time, history offers no guide to what happens next.

GRAPHIC: graphic, no caption

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LENGTH: 1451 words

HEADLINE: Chinese Industry Races to Make Global Name for Itself

BYLINE: John Pomfret , Washington Post Foreign Service

DATELINE: SHENZHEN, China

BODY:

Konka, Haier, Huawei and Legend may be unfamiliar names, but they are trying to change that.

These companies want to do something no Chinese business has ever done before--build a brand name. A new Toshiba, Sony or AT&T.

"We're trying to break the stereotype--that China makes lousy goods," said Huang Zhongtian, vice general manager of Konka Group Co., which produced 6 million televisions last year and won a design award in the United States. "Lots of merchandisers have asked us to take off the 'Made in China' label or switch to a Japanese brand, but we won't do it. People are going to change. They will understand 'Made in China' doesn't mean bad quality anymore."

Huang and managers like him have an uphill fight, but they realize that it is one they must win if they are to help transform China's economy from a regional powerhouse into a global competitor.

Throughout China, thousands of companies, still stuck in an old mind-set in which production mattered and quality didn't, churn out billions of dollars each year in lousy goods. Almost every senior Chinese official has complained that shoddy products constitute one of China's top economic problems. About $300 billion worth of the stuff--equal to one-third of China's gross domestic product--currently languishes in warehouses around the country.

The second big problem is that time is running out for firms like these. Sooner or later, this year or next, China is going to enter the World Trade Organization. Accession to the WTO will open China's markets even more to direct foreign competition. In theory, the trade regime will force China to begin to dismantle the protective shield it has built around its economy since 1978, when the Communist government first opened to the outside world.

China's success in the global economy will depend to some degree on the ability of its companies to build recognizable, popular brands. Japan did it in the 1960s and 1970s with Toyota, Sony, Toshiba and Kawasaki. South Korea did it in the 1980s with Hyundai and Samsung. Now, Chinese businessmen, who have spent years making products and putting other firms' names on them, say it's their turn.

China's government is giving them lots of help--tax breaks for exports, subsidies for research, and easy access to China's capital markets for firms with good products. That's prompted some criticism from China's biggest customer, the United States, which is laboring under a $ 70 billion trade deficit with China.

Already, Chinese brands have chalked up significant success beating back foreign competition in China. Six years ago, foreign brands dominated China's market for TVs, grabbing 70 percent of sales. Now, led by Konka, Chinese firms account for 80 percent.

In computers, too, Chinese firms are eating their Western competitors' lunch. Before 1996, more than 80 percent of the computers in China were sold under a foreign brand name. Today, three Chinese firms, led by the Beijing-based Legend Holdings, have 33.1 percent of the market, compared with a lowly 15.6 percent by American giants International Business Machines Corp., Hewlett-Packard Co., Compaq Computer Corp. and Dell Computer Corp. combined.

In microwave ovens, China's Galanz, a former textile firm that got tired of dealing with U.S. import quotas, already controls 70 percent of the domestic market, leaving little room for competitors such as Samsung and Whirlpool.

But building a brand is not easy in China. Take the case of Haier Group Co., a leading maker of refrigerators and air conditioners.

When Zhang Ruimin, the company's president, joined the firm 15 years ago, one of his biggest concerns was to stop workers from urinating in the work rooms. To symbolize a break with the past, Zhang and other executives took 76 old refrigerators into a parking lot and smashed them with clubs.

Zhang's single-minded obsession with quality and service has been a key to Haier's success. The $ 2 billion firm is considered the world's fastest-growing manufacturer of household appliances. "When I started, we had 800 workers whom I couldn't pay," he recalled in an interview in Haier's headquarters in the seaside city of Qingdao. "Now we have 20,000 and we are growing well."

Zhang realized early that Haier was not going to make it in the long run if it stayed within China's borders. Joining the WTO means that China's trade barriers will fall, bringing the best foreign products to China. As a result, Zhang decided early that Haier should compete in the global marketplace.

Haier began exporting refrigerators in 1992, and last year it exported more than $ 130 million worth of goods. Haier has 22 percent of the small-refrigerator market in the United States.

It also began moving production abroad, and now it has factories in India, Malaysia, Yugoslavia and the United States. The decision to open a refrigerator plant in South Carolina prompted snickers from financial analysts who think the place to make appliances for the U.S. market is Mexico, not the United States.

"This is an experiment," said Zhang, who is aware of the criticism. "When Americans think about Haier, we want them to think it's a U.S. company."

Design as well has been moved overseas because of Zhang's belief that he has to be close to his customers. Five centers, in India, South Africa, Egypt, Morocco and the United States, now send ideas back to Qingdao.

Cruise through Haier's showrooms and you can see the effect.

Appliances in every possible shape and size line the walls. There's one with special handles made for European women, "because they have long fingernails," chirped Su Fangwen, Haier's public relations boss. A washing machine for China's farmers has a special cycle so they can clean sweet potatoes.

"For Europe--solemn and elegant. For Africa--economical and practical. For Japan--the pet of the supermarket. For America--generous and imposing," reads a sign on the wall.

One major impediment to the growth of China's firms is the government and the confusing tangle of ownership under which many of these companies are forced to labor. So far, the majority of China's international firms are owned mostly by the state. China's fledgling private firms have yet to make a big impact around the world because China's government for years has limited their access to capital to grow and has yet to pass laws protecting private property.

Take Haier. The firm has 18 wholly owned subsidiaries, 23 holding companies and nine joint ventures. But ask Zhang who owns it and he smiles.

Part of Haier is listed on the Shanghai stock exchange, part of it belongs to the Qingdao city government, but just which part of the government is another question.

And sometimes the city government seems more interested in using Haier as an employment center than maintaining it as successful firm. Over the past few years, Haier has been forced to buy 18 bankrupt companies as part of the city's program to use healthy firms to re-employ workers from failing industries.

"We have to sort out the ownership issues here," Zhang said. "Here we really have to serve the market, we can't serve the leaders. So we need to reorient our attitude away from the top toward the market."

Like many of China's firms, Konka in southern China's Shenzhen got its start doing "original equipment manufacture" or OEM, which meant it made TVs for other brands. By the mid-1990s, however, its Chinese executives decided to create their own brand. There followed a nasty split-up with Konka's longtime Hong Kong partner, which opposed the idea. Now, only one-third of Konka's products are OEM.

"We just didn't want to make other people's stuff for them anymore," said Huang, Konka's vice general manager. "It was partly national pride and partly smart business."

Konka has focused much of its attention on markets in the developing world. It has set up a $ 15 million joint venture to produce TVs in India along with factories in Indonesia and Tijuana, Mexico, as well.

But like Haier, Konka also wants a piece of the Western market. It already is the No. 1 brand in Australia. By 2001 it hopes to sell 1 million color televisions in the United States, for 5 percent of the market.

Last year, Konka became the first Chinese firm to ever win a consumer electronics prize in the United States, snapping up the "Award of 2000 for Innovation" during the Consumer Electronics Show in Las Vegas for its high-definition TV.

"Our competitors were very surprised," Huang said with a grin. "They said, 'You're China, you are a developing country. How can you produce this?' But we are smart. And we are learning about markets every day."

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The Washington Post

April 23, 2000, Sunday, Final Edition

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HEADLINE: Chinese Workers Are Showing Disenchantment; Official Statistics Show Number of Labor Disputes Has Soared as Workers Complain of Late or No Pay, Layoffs, Corruption

BYLINE: John Pomfret , Washington Post Foreign Service

DATELINE: BEIJING

BODY:

The number of labor disputes in China has skyrocketed -- to more than 120,000 in 1999 -- as workers in unprecedented numbers get laid off, are paid late or not at all and feel cheated by corrupt officials who sell state property for a pittance to friends, relatives and colleagues.

Official Labor Ministry statistics passed to a Western diplomat and a recent article in the journal Legal Research showed 14 times more labor disputes--from simple contractual disagreements to work stoppages and strikes--last year than in 1992. The article and labor officials' willingness to speak about the issue marked a departure for the Communist Party, which has struggled to maintain stability in Chinese cities in the wrenching transformation from a planned economy to something akin to a market economy.

The strains were highlighted in late February when tens of thousands of workers erupted in a violent protest at China's biggest nonferrous metal mine near the Bohai Sea in the northeast. Workers there burned cars, broke windows and kept police and the army at bay for several days as they protested what they said was an unfair and corrupt handling of the mine's bankruptcy.

Chinese labor conditions have been the subject of increased international scrutiny in advance of a vote in the U.S. Congress on granting China permanent normal trade relations, a major stepping stone to its accession to the World Trade Organization. U.S. labor unions, led by the AFL-CIO, have argued that entry into the WTO would result in a deterioration of China's already limited labor rights. Chinese law does not provide for the right to strike and bans independent unions.

The statistics show a jump from 8,150 labor disputes in 1992 to more than 120,000 last year, answering a question posed often by China scholars: Is the urban labor situation getting tenser, or is it simply that China's increasing openness allows for more information about a fixed number of disputes?

"This is significant. It shows things are getting more difficult," said Anita Chan, an expert on China's labor relations at Australian National University in Canberra.

At the same time, the statistics also helped explain why the increased unrest has yet to translate into a movement challenging the Communist Party's monopoly on power or seeking to establish independent labor unions. While collective labor disputes, in which workers seek to bargain in a unit, are increasing rapidly, they still make up a minority of the overall disputes--7 percent in 1998, the last year available. And no evidence exists of workers uniting to strike at several businesses at the same time.

Besides unrest over wages, labor disputes typically involve unpaid pensions to laid-off employees, poor working conditions and the sell-off of state enterprises that workers believe involved fraud by management.

Andrew Walder, an expert on Chinese urban workers at Stanford University, said a key reason the unrest hasn't translated into a broader movement is that strikes remain scattered and workers are unwilling or unable to unite to pursue broader goals.

"There have been periodic press reports for most of the last 10 to 15 years or so that labor disputes are on the rise in China," he said. "It makes a great deal of sense that they would be: Wage issues came to the forefront in the 1980s and increasing job insecurity and layoffs [became] a big issue in the 1990s. Should we get worked up about such reports? Probably not. Scattered strikes are politically meaningless. If and when a national or regional trade union is organized and survives openly for a while--which is very unlikely--we should then begin to read political significance into all this."

Some researchers suggested that the 1999 figure for labor disputes, which represented a 29 percent increase over 1998, was limited by massive government subsidies. Last year during the 50th anniversary of China's Communist revolution, party officials were told to stress stability at all costs.

"Labor relations in 2000 will deteriorate as special subsidies fade out, the economic and labor 'reforms' intensify and more and more workers are laid off," said Tak Chuen, an expert on China's labor issues at Hong Kong Baptist University.

Chuen said Chinese workers face a difficult situation because accession to the WTO will do nothing to improve their livelihood, at least in the short run, but failure to do so will not help either.

The Legal Research article, written by retired scholar Shi Tanjing and published in November, called on the government to end its ban on strikes. The right to strike was removed from China's constitution in 1982.

Shi said labor disputes in China are increasing because "the rights of the workers have been infringed." But the article notes that workers have been winning the disputes, in arbitration courts and in judicial courts, at rates of 3 to 1, 4 to 1 and even 18 to 1 in some regions.

This underscores a main strategy China's government uses to deal with labor unrest: giving in to most workers' demands. For instance, Labor Ministry officials said this week that China plans to double spending on worker issues such as back pay, unpaid pensions and medical insurance, a Western source said.

Eleven million Chinese will be unemployed by the end of this year, the Labor Ministry has estimated.

Shi noted that the hot spots for labor unrest are concentrated in state-owned enterprises in China's rust belt in the northeast and in coal mines, textile mills and forestry departments. Some 40,000 businesses ran out of cash in 1997, he said, meaning 11 million workers were not paid.

In the more economically developed southern provinces of Guangdong and Fujian, he said, most of the disputes centered on private or semiprivate firms where the "managers in their quest for profit egregiously exploit workers." Indeed, the sweatshops of Guangdong are famed for exploitation and danger. Maiming is commonplace because of bad machinery and poor training, and wages are very low.

Shi said a trend to watch is growth in collective labor disputes, which occurred 6,567 times in 1998--nine times more than in 1993--and involved 251,268 workers.

Shi's report also marked the first public acknowledgment of labor disputes in Beijing, the capital. He said the number of labor disputes here almost doubled in the first half of 1999 compared with the same period in 1998, while the number of collective disputes more than quadrupled.

Shi did not include statistics on strikes, partially, he wrote, because official newspapers do not publish them and Chinese officials ordinarily suppress that data for fear of hurting their political careers.

LANGUAGE: ENGLISH

LOAD-DATE: April 23, 2000

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 1, 2000

REMARKS BY THE PRESIDENT
TO UUNET AND MCI WORLDCOM EMPLOYEES

UUNet Technologies
Ashburn, Virginia

3:15 P.M. EST

THE PRESIDENT: Thank you very much, Melissa. To Bernie and John and Mark, thank you for welcoming me and Ambassador Barshefsky and our whole team here. I leaned over to John when I looked at all of you out here and I said, now, I can't believe all these people are off work now, what terrible thing can happen? (Laughter.) What could I be responsible for doing to the Internet today? (Laughter.)

I am profoundly honored to be here, and I thank all of you for allowing me to come. I came here to talk about your future, but because this is the only opportunity I'll have today to speak, through you and the media to the American people, I have to make a brief comment about one other issue.

Today there was another terrible shooting in the Wilkinsburg community in Allegheny County in Western Pennsylvania. We don't know all the facts yet, but it was a bad situation. Yesterday, of course, that tragedy occurred in Michigan, where a very young child was killed by another very young child. I just talked to the superintendent of schools there, right before I came out.

I want to say two things about it to all of you. First of all, these are personal tragedies that, because of instantaneous media coverage, we all know and feel. And we owe the families of the victims and the communities our prayers and our best wishes.

Secondly, as citizens, these incidents, particularly the one yesterday in Michigan, call on us to recognize the fact that we simply haven't done everything we can do to keep guns away from criminals and children. And so today, I have to say again to Congress: you have had legislation now that would require child safety locks, would close the gun show loophole, would take other steps to keep guns out of the wrong hands for well over six months. You're supposed to take a recess next week. Before you take the recess, please send me this legislation. It will help keep America safer. (Applause.) Thank you.

Now, I want to talk to you today about your future, which is unfolding at a breathtaking rate. We were talking, before we came out, I said, tell me a little about the growth. So John said, well, five years ago we had 40 employees, today we have 8,000. Bernie said, five years ago, we had 2,000 employees, today we have 88,000. You're getting along reasonably well. (Laughter.)

I have been going around the country saying to my fellow Americans everywhere that in a new economy in which we have now in the last seven years 21 million new jobs, the lowest unemployment and welfare rolls in 30 years, the lowest poverty rates in 20 years, the lowest female unemployment rate in 40 years, the lowest African American and Hispanic unemployment rates ever recorded, the highest homeownership on record and the longest economic expansion in our history, the world is changing so fast, if you want to keep doing well, you have to keep trying to do better; that it is very important that all of us understand that we'll never get anywhere by standing still -- although, given the pace at which you're growing, I'm glad I'm giving you the chance to stand still for a little bit today. (Laughter.)

This shift in our economy is changing the landscape of our country, both symbolically and literally. I first saw the landscape of Northern Virginia as a freshman in college, 36 years ago. But it looks different than it did when I became President, seven years ago. Everywhere you look, there's a brand-new facility. This place is truly amazing. And beneath all the booming business parks and green pastures, there are countless miles of cable, conducting more than over half the Internet traffic in the entire world.

There are more high-tech firms in Northern Virginia today than there were farms in 1970, when the region led the state in the production of milk. (Laughter.) Here in Loudoun County, there are more high-tech workers than there were residents in 1980. It has been an amazing thing. Workers like you and firms like UUNet are the new engines driving our economy. You represent about 8 percent of our employment, but 30 percent of our growth over the last decade, something you can be very proud of.

The new technologies that you use are also finding their ways into every sector of our economy, making companies of all kinds more competitive. UUNet provides a lot more than Internet service. Every day you show us something about the power of ideas, the power of imagination, the power of enterprise; values that are at the core of America's character and at the bottom of this booming new globalized economy, in a marketplace that is much, much wider and fuller of possibility than any of us could have imagined when this company sold its first commercial connection in 1988.

In just 12 years you've extended your reach to 100 countries, expanding your global network by more than 1,000 percent a year. The global network is a big part of your future, and that's what I want to talk about today, and what government's role in that is.

People ask me all the time, well, this is the highest percentage of growth in jobs in the private sector, and the smallest percentage in the government of any recovery we've ever had, since we could measure such things. As a matter of fact, since I've been President, we've reduced the size of government to its smallest point in 40 years, since 1960.

So people say, well, what is your job, Mr. President? What is the Congress's job? I think our job is to create the conditions and provide the tools for you to do your job. What does that mean? That means we ought to invest in education and training and new technologies. There's a lot of research that can't efficiently and economically be done in the private sector.

The Internet originally grew out of government-funded research, which, as I was reminded today by your leaders, is one of the reasons there are so many high-tech firms in Northern Virginia. Second, we've got to give you an overall healthy economy, which is why we had to get rid of the deficits and start running surpluses, and why we ought to pay this country out of debt, keep interest rates down and make capital available for other companies to grow as well.

The third thing we ought to do is to promote genuine competition.

That was behind the gentle nudge that Bernie gave me about the Baby Bell comment. (Laughter.) He was -- actually, it was a little inside joke, but he was referring, in a supportive way, to the fact that the Vice President and I fought hard in the Telecommunications Act, when we rewrote the telecommunications bill for a pro-competitive position. And because we fought hard, we got it, and you not only have companies like yours that have swollen in size in the last five years, there are hundreds and hundreds of companies that didn't even exist five years ago that are able to make it today because the United States took a pro-competitive position in the Telecommunications Act. Those are our jobs. That's what we're supposed to do. (Applause.)

But finally, we are a country with 22 percent of the world's income and 4 percent of the world's population. And you don't have to be Einstein or even particularly good with a computer to know that if you've got 22 percent of the world's income and four percent of the world's population and you would like to keep doing better, you have to sell something to somebody somewhere else. (Laughter.)

And that in a world that is increasingly globalized, you're better off when they're better off. Not good for you that African countries which are capable of growing at 7, 8, 10 percent a year are so burdened by debt that they can't educate their children or provide health care to their people. It's not good for you if -- because we refuse to open our markets to some countries in the Caribbean or Latin America, they don't open their markets to ours and they grow more slowly and their people remain poorer. You'd be better off if they get richer and more of them will be on the Internet.

We live in a time when really to doing the morally right thing happens to be good economics. But in order to do it, again I would say, you will do a lot of it -- I've seen enterprising kids in poor African villages logging onto the Internet and finally seeing a map that's up to date and learning geography and doing all kinds of things. People will take care of this if we establish the right conditions and provide the tools.

One of the things that we have worked hard on is to expand trade. Under Ambassador Barshefsky and her predecessor, we completed over 270 trade agreements. But in many ways, perhaps the most important of all is the agreement that -- or the decision Congress will have to make this year and in the next few months on whether to let China come into the World Trade Organization by giving them permanent, normal trading relation status with the United States.

If you've been following this debate at all, you know there is a lot of controversy about this in the Congress. And I won't go through all the arguments now, but let me just tell you, I can say this from my heart, you know, I'm not running for anything this year. (Laughter.) And most days it's okay with me, but I'm not -- most days. (Applause.)

But I care a lot about what this country will be like when the young people here in this audience are my age, when your children are your age. This is a profoundly important issue. It is, in the short term, the kind of decision that every country would wish for. Once in a generation you get a chance to open a market with over a billion consumers -- the biggest potential market in the world.

Let me explain, first of all, what this agreement does. In return for China's entry as a full partner in the World Trade Organization, the United States would gain unprecedented access to China's markets. Today, with the Chinese, we have our second-biggest trade deficit -- tens of billions of dollars, because our markets are open to their products, and they should be, because we'll be better off if they do better.

But their markets are not very open to our products and services. Under this agreement, Chinese tariffs in every sector, from telecommunications to automobiles to agriculture, will fall by half or more in five years. For the first time, our companies will be able to sell and distribute products in China made by workers here at home without transferring technology in manufacturing -- never happened before. For the first time, China will agree to play by the same open trading rules we do. Never happened before.

Meanwhile, we'll get two tough, new safeguards against surges of imports which would threaten to throw a lot of Americans out of work in a short time under unfair trade practices. So these are the kinds of changes any president, regardless of party, would welcome -- because presidents, regardless of party, have worked to bring about these changes for more than 30 years now.

This is a good deal for American workers, for American farmers, for American business. It's a good deal for America. But the only way we can get this agreement is for Congress to give China permanent, normal trading relations. This is one of the most important votes Congress will pass in this year and for many years to come. Next month, our Commerce Secretary, Bill Daley, and our Agriculture Secretary, Dan Glickman, are going on missions to China with dozens of members of Congress to meet with people in government and business and religious leaders who are interested in change in China.

It's very interesting to me that the more people go to China and spend time there, no matter what they do for a living or what their perspective is, the more likely they are to favor our bringing China into the world system of rule-based trade. Because this is about economics and more than economics -- and I want to say more about that in a minute.

But just think about the economics of high-tech companies. Today, China's tariffs on information technology products average 13 percent. When China joins the WTO, those tariffs will start to fall and be eliminated by 2005. China will open its Internet and its telecom markets to American investment and services for the first time. That's a huge deal.

Now, the magnitude of all this almost defies measurement. The number of Chinese Internet users -- let's just take that -- quadrupled in the last year alone, from 2 million to 9 million. This year the number will exceed 20 million. And you know what the internal dynamics of this technology are, you know how much your company has grown. Now, project that rate of growth onto a country that has over 1.2 billion people. And keep in mind, the United States is not being asked to do anything to get this agreement, except to treat them like a normal trading partner on a permanent basis and bring them into the WTO.

So what are we going to do? China doesn't have the information infrastructure to support 500 million Internet users yet. But UUNet already has a presence in Hong Kong. You could help them to build it. (Applause.)

Let's look at what happens if we didn't do it. Today we've got a huge advantage in high-tech trade internationally. What would happen if we didn't take advantage of this? China will grow anyway and someone else -- not you -- will reap the benefits of it. So if we turn our backs on this opportunity, we will be unilaterally disarming in perhaps the most vital area of our future economic growth.

And let me say, finally, this is about more than money. I saw a lot of you nodding when I said it was good morally and good economics to help lift the burden of debt from the poorest African countries if they're working to try to do better. I saw a lot of you nodding when I said it was the right thing to do to buy more from the Caribbean and Latin America countries if they were doing the right thing in opening their markets to us.

We have a decision to make here. The people who don't to do this by and large think that China should not be taken into the World Trade Organization because we don't agree with all their political decisions. We don't like it when they repress human rights or political rights or religious expression. We don't agree with them that we should take little or no account of environmental impacts of economic decisions; or that we shouldn't take strong steps to eliminate child labor and slave labor and things like that. We have differences.

But think of this. You know how much the Internet has changed America. And we were already an open society. I can look out in this crowd and tell that many of you come from some place else. You know how much the Internet is changing where you came from and how much it could change if it were there. The same thing is true in China.

Everything I have learned about human nature in my life, plus everything I have learned about China as President, convinces me that we're a lot better off bringing them into the family of nations into this common endeavor than shutting them out. Do we know what China will be like in 20 years? Of course we don't. We can't control what they do; all we can control is what we do. But here again, I think our values will be advanced, along with our economic interests, if we give people a chance to be good partners. If you don't give them a chance, it's almost certain that they will react in a negative way.

So I ask all of you to think about this, because normally, Americans don't think about foreign policy much, but you know that with every passing day in a globalized economy, there is no longer a clear, bright line between an issue which is a domestic political issue and an issue which is a foreign policy issue.

With every passing day, these issues grow closer together. Do I like it when people's religious liberty is oppressed in China? No, I don't. But it's very interesting -- most of the evangelicals I know who have missions in China want China in the WTO because they know that that will make it more likely that there will be more freedom of expression, more contact with the outside world, and a bigger stake in working with other countries.

This is about money, yes; but it's about more than money. It's about whether we can create a world where there's the kind of harmony across race and ethnicity and religion that there must be in this work place that I can see just by looking around the room here. Wouldn't you like it if the world worked the way you do here? (Applause.) How could it be bad if companies like UUNet are able to make the tools of communications cheaper and better and more widely available to more Chinese people? It has to be good.

So I will say to you: I don't agree with everything the Chinese do. I'm sure they don't agree with everything I do. (Laughter.) And far be it for me to equate the two disagreements. (Laughter and applause.) I don't believe -- in all seriousness, I don't believe it's right to crack down on people for their religious views or their political expression or because they want to be in an association like the Falun Gong. I don't think that's right. But I don't believe that we will have more influence on China by giving them the back of our hand instead of giving them a chance to build a different future.

That's what this is about. And I want every one of you to think about this. Look, economically, this is a no-brainer. It's in your interest. It will make this company a lot more jobs. But I don't ask you as citizens to check your values at the door. Every one of us believes in some things that money can't buy.

But I'm telling you -- you just think about what you have learned in your life about human nature. The leaders of China are not foolish people, they're intelligent people. They know if they open these markets, they know if you go in there and everybody gets connected to the Internet that change is coming more rapidly in ways that you cannot control, and people will be able to define their future independent of the government's ability to control it more than ever before -- whether you're talking about religion or politics or personal life choices or anything else. They know that. And they have made this decision, and we cannot let our disagreements with government policy get in the way of our interest in a long-term partnership with the most populous country on Earth. So, again, I say, what is good economics is also consistent with our values.

The late Chief Justice Earl Warren once said that, "Liberty is the most contagious force in the world." I believe the Internet inevitably is an instrument of human liberty, and it will be in China as well if we continue to reach out to people. (Applause.)

So I'm asking you to do something if you agree with this. I want you to tell the members of Congress without regard to party that represent your state -- if you live here, if you live in Maryland, you live in West Virginia -- I want you to ask them to support this. And I want you to tell them, I want you to tell them that you will stay with them on this decision if they do, because this is very, very important.

You know, I'm grateful that since I've been President, America has done well. I'm grateful for the chance I've had to make a contribution to it. But, frankly, I'm much more interested in whether America continues to do well long after my tenure in office. And, again, I say to you, if you know in your business that if you want to keep doing well, you always have to keep trying to do better; and looking at the future, anticipating the changes, imagining how you want it to be.

I can't imagine a world that I want for my child and my grandchildren that doesn't include partnerships that are constructive with the big countries of the world which promote human liberty, as well as economic progress. That's what this whole thing is about.

So I say to you, I came here today because you are the symbol of 21st century America. You are the embodiment of what I want for the future. (Applause.) And because of what you do for a living every day, because of how you see and feel the way the world is changing and how you see what it can become, you are in a position that most of your fellow Americans are not in to understand the importance of this. So, again, I say to you: you're doing great. I want you to do better. And I think we can do better and do good, but we have to start this year by making sure that we don't turn away from this profoundly important opportunity.

Thank you very much. (Applause.)

END 3:43 P.M. EST

Ellen E. Olcott
04/25/2000 12:55:52 PM

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 25, 2000

PRESS BRIEFING
BY
GENE SPERLING, DIRECTOR OF THE NATIONAL ECONOMIC COUNCIL,
MARTIN BAILEY, CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS,
LAWRENCE SUMMERS, SECRETARY OF THE TREASURY
AND
ROBERT M. SOLOW, PROFESSOR EMERITUS AT
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

The James S. Brady Briefing Room

10:53 A.M. EDT

MR. SIEWERT: Here to brief on a letter from economists supporting permanent normal trade relations with China. Our National Economic Council Director, Mr. Gene Sperling; Chair of the Council of Economic Advisors Martin Bailey; The Secretary of Treasury Larry Summers, and Nobel Laureate Professor Robert Solow.

Gene will introduce.

MR. SPERLING: We're here to put out this letter by the Nobel Economist and others. We'll have -- Martin Bailey will speak first, and then we're very happy to have with us Professor Solow, who is Emeritus Professor at MIT, Nobel Prize winner and a true giant in his field in a variety of ranges, from productivity onward.

Then Larry Summers and myself will make brief comments, and then we will be available to take whatever questions you have. And so with that, let me just turn it over to Martin.

MR. BAILEY: Thank you, Gene.

Americans have an interest in promoting free trade and a rules-based international trading system. China will also benefit from participating in such a trading system. Economic openness, which has been greatly promoted through the actions of the World Trade Organization and its members makes Americans more prosperous.

The freedom of our firms to choose from a wider range of inputs and of our consumers to chose from a wider range of products, improve efficiency, promotes innovation in technology and management, encourages the transfer of technology and otherwise enhances productivity growth.

China's accession to the World Trade Organization will enhance the process of reform that began there two decades ago. These reforms, which have emphasized reliance on markets and openness to trade and foreign investment and have helped to raise the standard of living of the average Chinese citizen nearly five-fold since 1979.

Accordingly, the Council of Economic Advisors has contacted and worked with a broad range of American economists outside the administration in order to formulate an open letter to the American people in support of China's entry into the World Trade Organization, and we are releasing that letter today.

My CA colleague, Robert Lawrence, and I, have been heartened by the broad support for this open letter from economists with widely differing views on other issues. Thirteen U.S. Nobel Prize winners, including Kenneth Arrow, Paul Samuelson, Milton Friedman, and Robert Lucas have signed; 10 former chairs of the CEA have signed, including Laura Tyson and Martin Feldstein. A total of 149 economists have signed this letter.

We're very fortunate, as Gene said, to have with us today one of the signatories of this letter, Nobel Prize winner, Robert Solow of MIT. It's my pleasure to introduce Bob Solow.

PROFESSOR SOLOW: Well, as Martin said, an awful lot of the intellectual power of the economics profession has signed this letter. And it's such a simple proposition it doesn't really require that. You could not generate a hard exam question out of the material here.

Just as economics, the U.S. stands to gain far more from China's accession to the WTO and full entry into the world trade community. We stand to gain far more than the U.S. risks losing.

China already has perfectly good access to U.S. markets because we are and have been, have a long tradition of being an open economy.

Accession by China to the World Trade Organization gives us -- gives American business -- and indirectly, of course, American workers access to a market of -- I don't know what it is -- a billion and a quarter people -- the six or seventh or eighth largest economy in the world. It's a poor economy; income per head is not high in China, but it's growing very fast. And there is no doubt in anyone's mind, inside or outside the economics profession, that China will be a large market, needing an awful lot of stuff for a very long time.

The down side, the possible down side that you hear about, of course, is the possible movement of jobs and capital flow from the U.S. to China. Some of that will happen. There is no doubt about it. But, equally, there is no doubt where the balance of advantages lies. It's not even close.

What you have here is a good example of the standard politics of free trade. Opening of trade always hurts some small number of people, and hurts them appreciably. It benefits the whole population, but each of them by a relatively small amount. Added up, over the total, it is very large, as history has always shown. There is no question that the benefit to American workers, to all American workers from having free access to a market the size of China has to be important -- far more important.

The same fear of loss of jobs and outflow of capital has been expressed over the years with respect to other Third World countries, to other poor countries, and here we are in the U.S. now with the lowest unemployment rate in God knows how long. China will compete for some low-wage jobs with Americans. And their market will provide jobs for higher wage, more skilled people. And that's a bargain for us.

There are two fundamental truths about economic life that really bear on this that are not related to China and the WTO but are -- tell you something about the way economies work. One of the things we have learned is that in the long run the standard of living of the people of a country like the U.S. depends primarily, fundamentally on their own productivity. We will live at the standard that our own productivity will support. Access of China to the international trading community will not hurt our productivity, and it may even help it by allowing larger markets to American industries that will profit from economies of scale.

On the whole it's better for us when our trading partners are rich than when our trading partners are poor; and for China to keep growing in economic terms is an advantage for us.

The second fundamental truth -- again, as we've learned from recent experience -- is that our ability, the U.S.'s ability to maintain high employment depends fundamentally on our behavior, our policies, our entrepreneurship. We can maintain high employment probably more easily with greater availability of foreign markets, including the Chinese market.

There is, of course, a lot of political argument about China and the WTO that has nothing to do with the economics in particular. I have opinions about that. I'm not sure why you should listen to them -- but since I've got you here, let me take a chance. (Laughter.) I think that the progress of human rights and the expansion of democracy in China would be better served by China's economic development, by China being drawn into relationships with other part of the world -- will be far better served by that than it will be served by annual speeches, either from the President or from members of the Senate or House.

As it happens, just about the time of the Gorbachev period in the Soviet Union -- the then-Soviet Union -- I happened to have, for completely extraneous reasons, occasion to spend a couple of months in Finland, in Helsinki. China then -- Russia then, the Soviet Union then had very close trade relationships with Finland. In fact, they had a deal whereby Finland bought all of its oil at the world price from the USSR, and the Russians spent the proceeds on Finnish manufactures. This was good for both of them. Helsinki in those days was full of little knots of Russians. You could always tell them from their hats, walking around the street, looking, pointing, talking.

And there is no doubt in my mind what they were saying to each other. These were people on Russian trade missions, buying up manufactures from Finland and that were saying, oh, boy, did we do something wrong. Here is Finland, which used to be the poorest part of Northeastern Europe, and now it's like Sweden; it's fantastically richer than the USSR.

The lesson that walking around Helsinki must have taught Russian bureaucrats and factory managers and whatnot, is worth any number of speeches, and I think that much the same thing will happen here. China may be a tougher nut to crack, but I think that there is no political loss for the U.S. in drawing everyday Chinese into relationships in which they and we can improve our economic well-being. Thanks.

Q Do you don't think that labor's opposition was valid?

PROFESSOR SOLOW: No, I don't. The labor movement has always had a protectionist side to it. I have read statements that this time, it's not protectionist. Last time it was. But in fact, I think the labor movement is subject to the political bind that I mentioned. If some group of workers will find themselves in stiffer competition, danger of losing their jobs to Chinese producers, they make a lot of noise.

But the 90 percent or whatever the fraction is, of union members, of AFL-CIO members who won't ever see, won't ever be able to identify that this hour of work that I might not have had, or this wage increase that I might not have done is actually contributed to by the fact that my employer and I now have access to a bigger growing market; that will never be noticed.

So I think that the labor movement is subject to exactly that political pressure. It's amazing, you know, I oft think that the miracle is not that there is always some latent protectionism out there, but that in spite of it, we and much of the industrial capitalist world have managed over the last 50 or 60 years, progressively, to open trade. I think that's sort of a political miracle.

MR. SPERLING: Why don't we finish off, and then we can open things up for questions.

SECRETARY SUMMERS: You've just seen why Martin Bailey and I both found Professor Solow to be such a persuasive and interesting teacher; and we take consolation in the fact that he's a retired professor now, and so we won't get grades on our performance.

Let me first say that the President has said that this is a once-in-a-generation vote because of its importance. And I would say, as a member of the economics profession, that it is a once-in-a-generation event that Bob Solow and Milton Friedman, Paul Samuelson and Merton Miller, Ken Arrow and Robert Lucas are signing a letter on the same side of a major public policy issue.

That reflects what I think is both the importance of the public policy issue and the clarity of the merits. Let me highlight four points on the merits. First, it is good economics. Our economic strategy, which has led to this expansion, has been based on an approach of export promotion and an approach of open markets, which have been a safety valve in a high-pressure economy. Without that strategy our economy would be much less healthy today. And without a continued commitment to an open-markets strategy, our prosperity will be less successful in the years ahead.

Second, it is -- this agreement is not only good economics, but is good mercantilism, as well. One looks at the matter solely from the perspective of trade promoted. The worst mistake that we could make as a country would be to negotiate a highly successful agreement with China that provides for major tariff reductions of 25 percent, reductions from 25 percent to nine percent in average tariffs, reductions in the automobile sector from the 80 to 100 percent range to the 25 percent range. To negotiate such an arrangement and then ensure that the only beneficiaries were our major competitors in Europe and Japan, and that we were not beneficiaries -- and yet that would be the consequence of our not entering into this agreement.

Third, this reinforces all the things we want to encourage in China -- whether it is belief in markets, whether it is the freer flow of information; whether it is the Internet, which has the power to transform societies. You know, people used to judge how free countries were by looking at the ratio of TVs to telephones, and in free countries there were a lot more telephones than TVs; and in communist countries there were a lot more TVs than telephones, because TVs went only one way. If we want to be part of changing that in China, then openness to telecommunications, openness to the Internet is a central piece of that.

On the other hand, if we want to repudiate all of those who are working in that direction, repudiate all of those who have worked out, reached out in favor of markets, then not taking the PNTR step is the way to do that.

The final reason why this is important lies at the intersection of economics and politics. And that is that economic history teaches us that major changes in the balance of global economies are often associated with profound conflicts. Going back to Assyria and Sparta, looking a number of times both in Europe before the first World War and in the Pacific before the Second World War. And our prospects of maintaining collective security in the Pacific region in the decades ahead will be much greater with this agreement than without it.

For all these reasons and with all respect to all the other issues we work on, I believe this is the only vote the Congress will take this year that is likely to appear in a prominent way in history books 25 or 50 years from now. And my hope and expectation is that it will appear as a significant step forward in American's global economic relations.

MR. SPERLING: I just want to emphasize that in this letter, economists letter, to look at the words in there that, one, promotes economic freedom; two, individual liberty in China; three -- these are the words in the letter -- giving China's citizens greater choice; and, four, advancing the rule of law. These economists have -- wide-ranging economists have rendered their judgment not just on the economic benefits, and certainly not at the economic benefits at the expense of economic freedoms in China, but because they feel that having China come into the WTO and having the United States pass permanent NTR will further this process.

One has to ask yourself: what is the vision of those who oppose this, how freezing in the status quo, how preventing the American companies from being over there, as Professor Solow exchanged, weakening the forces of reform in China, how that will actually strengthen the situation that we seek to improve.

And as Larry pointed out, if you have a situation, which we will have, in which we will open up the largest-growing market in the world to our competitors, but then go out of our way to deny those benefits to ourselves, that has to be the closest thing to unilateral economic disarmament possible. And we feel very encouraged by the wide-ranging number of professors, economists here, many who have been used to validate issues on both sides of the political aisle in the past, have come together on this.

With that, we're happy to take questions.

Q The last time you people produced a Nobel Prize-winning letter was on the nuclear test ban, and it didn't work. Will it work this time? How many votes do you have?

MR. SPERLING: Actually, the first time we did was with six Nobel Prize-winning economists supporting President Clinton's plan to cut the deficit and invest more in people in 1992 --

Q I stand corrected. (Laughter.)

MR. SPERLING: -- that Professor Solow was part of. And that turned out to be a fairly good endorsement that we think worked out fairly well. (Laughter.)

Q I'm not knocking Nobels, I'm just saying, are the effective --

SECRETARY SUMMERS: Helen, at the risk of disciplinary chauvinism, those were not Nobel Prize-winners in economics. (Laughter.)

Q When is the vote? I mean, how do you look in the Senate?

MR. SPERLING: In the House, you mean?

Q In the House.

MR. SPERLING: In the House. We've always thought this would be a tough battle. We still think it will be tough. But we're still optimistic that, in the end, the votes will come together and that we will prevail.

Q Gene, let me ask you about the Microsoft briefing today. Is the President going to take part in this briefing today? Why does it come at this late date? Why is the White House perking up its ears at this point in the Microsoft case? And does this suggest that the White House is going to get involved and has a voice and wants to say something about the Microsoft case?

MR. SPERLING: Answer to your first question, the President will not be involved in this briefing today. Secondly, this is a strictly informational briefing of representatives of the economic team in the Counsel's Office, so this is a strictly informational briefing. And, third, we received an informational briefing at the beginning of this process during the liability stage. We did not feel that that was appropriate in that stage of the law enforcement process.

We felt at the remedy stage that it was appropriate for representatives of the economic team and the Counsel's Office to receive an informational briefing.

Q Excuse me, if I could just -- does the White House have an opinion here that it wants to inject itself? Does it have something to say? Or are you going to stay out of it?

MR. SPERLING: This is an informational briefing today and we're not going to -- we're not going to answer hypothetical questions. I think what I've said is as much as we're going to say.

Q You won't say whether or not the President wants to do something here?

MR. SPERLING: This is a strictly informational briefing and we're not getting into hypotheticals.

Q A lot of the concerns of members of Congress on the PNTR issue are possibly going to be addressed in side legislation that there is some negotiation on. Can you give us a -- tell us where we are on that and how many Democrats you think that you can get with the side legislation that's being crafted?

MR. SPERLING: Well, clearly, we believe that the agreement for all the reasons listed, is a strong agreement in and of itself. There have also been ideas that have been discussed by members of Congress of both parties about ways that parallel to this vote on China-WTO accession.

We could do more good ideas in terms of keeping the spotlight on human rights and other issues, and members of Congress, like Sandy Levin and others, have worked hard on those and they are conferring with other members of Congress right now, both Democrats and Republican, to see how strong the support is for these measures, to see if there can be greater consensus around some of these.

We feel that many of these are very good ideas, and the stage we're at right now is that members of Congress are appropriately talking among themselves about which ideas could gain stronger support and could help broaden support for the PNTR vote.

Q What ideas do you think should be in there?

MR. SPERLING: I think that if we did not have any PNTR vote at all, if that didn't even exist, we as a country should be doing what is possible to highlight our beliefs in human rights, in labor rights and religious rights. We do so through a variety of forums. We do not believe that it should be done in a way that is WTO inconsistent or would be conditional on a trade agreement like China.

But if there are good ideas about ways that we can keep the spotlight on any country which we think has a poor human rights or labor rights, religious rights record, I think that's positive. And so I think we certainly have heard, we think, some interesting ideas in the human rights area that Congressman Levin and others have talked about. But what you're seeing now is that members are talking among themselves and seeing what ideas other members have and what is possible of strengthening overall support for PNTR.

Q Secretary Summers, on this Microsoft meeting today, sir, what signal do you send with your involvement, at your level, in this meeting? And how do you, if you want to, avoid the specter of interference in the sensitive stage of the legal process?

SECRETARY SUMMERS: I've got nothing to add to what Gene said. This is a briefing of the economic team on an economic issue, and we believe it's appropriate to have such an -- to have such an informational briefing. And as a member of the economic team, who is also an economist, I'm going to participate.

Q When is the last time, sir, you attended a briefing on a legal case of this magnitude at this sensitive of a stage in that process?

SECRETARY SUMMERS: I've certainly participated in other briefings on a range of microeconomic matters in the trade area, in the technology policy area, in the competition policy area during my time in the government, both as -- just which ones took place during my time as Deputy Secretary and which ones took place since I've become Secretary, I don't recall. But this is a --

Q Were they anti-trust cases?

SECRETARY SUMMERS: These were cases -- as I said, these were microeconomic. Whether any of them were specific anti-trust cases, I don't recall. But these were issues of competition policy and issues of trade policy.

Q Is it reasonable to assume that the administration, however, might want to have information about the possible economic impact of the breakup of Microsoft on the national economy?

SECRETARY SUMMERS: I think it's reasonable to assume that the members of the economic team believe that it is appropriate to receive a briefing on an economic issue, as we do from a very wide range of agencies and components of the government, both those that are within the Executive Branch, and in certain cases from regulatory agencies on matters within their purview that have an economic impact, and I think you should not see it as anything more than it is, an information briefing.

Q Given the current situation with Cuba and the arguments that have been made for opening China to more trade and increasing bilateral relations with the Chinese people, is there any effort or any thought to applying the same arguments to Cuba and perhaps softening our stand on economic reform?

SECRETARY SUMMERS: I would just refer you to others who have responsibility for policy in the Cuba area.

Q Professor Solow, what do you think? (Laughter.)

PROFESSOR SOLOW: I have a license to discuss anything. I don't actually know whether Cuba has any relation to the WTO, for instance, or not. But I think that if -- from my point of view, if an occasion should arise in which there were a chance for Cuba to accede to the WTO and allow --

Q Cuba is a member of the WTO.

PROFESSOR SOLOW: It is. Then I think that it would be a good idea to exploit the possibility of --

MR. SPERLING: Let me be clear: there is no change in our economic position and our policies on Cuba. (Laughter.)

Q Gene, a couple questions. People in the labor movement and Senator Fritz Hollings have both made the point that your argument is premised on the fact that China will abide by the agreements. Now, China does not have a good record of abiding by international agreements, and I realize you're talking about unprecedented enforcement action, but Hollings then referred to the fact that we've been working for decades to open up the Japanese market, and the Japanese are our Western ally. How do you respond to that point?

MR. SPERLING: I think it goes back to a point I made earlier, which is, what is the vision of those who oppose PNTR. I think China has had a mixed record on enforcement. There's clearly been some progress in intellectual property in areas, and there has been some disappointments. But the question is, what's the vision of those who oppose it? To keep in the status quo, to deny the United States the ability to WTO dispute settlement processes? I don't understand how that would make things better.

What you will have in the WTO is instead of one country, each country having to deal bilaterally with China without any clear enforcement mechanisms, you will have the pressure of 134 countries pressuring China with clear dispute settlement.

Now, in cases that we've had where countries have not complied, we have been able to get significant compensation because they have been part of the WTO process. So I think that the record is that when China has become part of international organizations, they have moved towards complying with their norms. Secondly, we will have greater international pressure by having all the countries. Third, we will have the benefits of the WTO dispute settlement and enforcement proceedings. And then fourth and finally, again, what is the vision of those who oppose it?

Any policy issue that you deal with, you have to ask yourself what is likely to improve the situation, what is likely to make things worse. China does not have a good human rights record; nobody disagrees with that. The difference is, do you think opening China -- and for all the reasons Professor Solow said -- is more likely to move the ball forward or move it backwards?

My question is, do you think it is more likely that China, already having access to our market, is more likely to become better at compliant if we just freeze in the status quo, or do you think it will be better if we bring them into the WTO, enforcement mechanisms, dispute settlement and under the pressure, the global pressure of 135 countries together as opposed to one individually without a clear international rule of law guiding that.

Q This letter, as far as I can tell, doesn't mention PNTR; it just talks about support for China's entry into the WTO, which can be done, as you have said -- which likely will be done whether PNTR is passed or not. Why doesn't the letter mention support for PNTR?

MR. BAILEY: This letter was about support for China entering the WTO and becoming a full trading member. This is not about a matter currently before Congress.

Q So what's the significance of it, then, if it's not about the legislation itself? I mean, Gephardt could support this. He said he wants China to go into the WTO, but with certain conditions.

MR. BAILEY: We believe that the support that this group of economists is giving, in terms of the letter that's there, that you have in front of you, certainly contributes to the public debate that's going on now about the role of China and our relationship to China.

Q Could we restate the question: why is the PNTR issue not in the letter?

MR. BAILEY: Just as a legal matter, it is not something that we can do to talk specifically about the matter before Congress, and so we have not done that, as a matter of the legal structure of this letter.

Q You're talking about it now. What do you mean, "legal structure"?

MR. SPERLING: We are not allowed to -- just to play things safe, not allowed to encourage others to lobby on a specific matter before -- and so to play things as carefully as possible with that, that is how that is done. We are obviously allowed, each of us in our own capacities, to speak out on why we believe passage of PNTR is in the best interest. But look, if you want to know -- if there's any question, if you have any question whether these people who signed this are for passage of PNTR, I recommend if anybody has any doubt, I encourage you to poll them one by one, and you will find that, I would guess, overwhelmingly all support a yes vote on PNTR. And you have one you can ask right here.

PROFESSOR SOLOW: Wait, let me just say that. When we circulated this letter, we did want it to bear on the fundamental principles of open trade -- and the issue that seemed most appropriate at the time was accession to WTO. If you were to ask me as an individual economist, do I favor permanent, normalized trading relationships with China, the answer is yes, of course, I do. I think to balk at that is pointless.

If you were to ask me about the 140-some odd academic and professional economists who signed that letter, I feel certain that the overwhelming majority of them would feel the same way. There would be some on that list, I imagine, whose interest in party politics is very great and would want to be cautious about what they say yes to and what they say no to, in terms of the narrow party political implications. But I would think that 80 or 90 percent of the signatories of that would say, of course, if we can have normal trading relationships with China, it's a good thing; and that the Congress ought to vote for it.

Q Professor, since you appear to have license to comment on some other things that -- (laughter) -- to talk about, would it be wise for government officials to assess the impact of breaking up a company like Microsoft before taking such a significant step -- as an economist, sir? (Laughter.)

PROFESSOR SOLOW: As an economist, I would say that the people in the administration who are themselves professional economists, whose beat is economics, they must occasionally think about what the implications of any particular major economic event would be. And I can't believe that they haven't, before sleep overcomes them at night, wondered about how this would -- how alternative rulings in the Microsoft case would play out. I suspect a lot of you, some of whom probably don't have Ph.Ds in economics occasionally think about that, too.

I mean, I don't --

Q What do you think?

Q Is breaking up -- is it good economic policy?

PROFESSOR SOLOW: I have not studied the Microsoft case in enough detail. I'm a macroeconomist by trade. I have to obey by my own union rules. (Laughter.) And so I have not -- I have vague opinions. I even have strong opinions, but they are not based on anything that would allow me to tell them to you.

Q Secretary Summers, you said that it was inappropriate for you to have this informational briefing during the liability phase; why is it appropriate now during the remedy phase?

SECRETARY SUMMERS: Actually Gene was the one who said that. (Laughter.) I don't know -- let me just say that at this point what is being discussed is an economic issue. And I think there's a feeling that it's appropriate to have a briefing on issues that clearly have important economic ramifications. We did not receive a briefing at a moment when the primary issues went to a set of adjudicatory questions involving various aspects of conduct, where the relevant issues of discussion were not primarily economic in nature.

Q Is it good economic policy to divide Microsoft up into an applications company and an operations --

SECRETARY SUMMERS: We haven't received any briefings, so I don't have anything for you at all on that. We don't have anything further for you on Microsoft.

Q What would you do with this information when you hear it? Would you just listen to it and --

SECRETARY SUMMERS: We're going to receive a briefing, and we don't have anything for you -- anything beyond that.

Q Will you after the briefing?

SECRETARY SUMMERS: That's a hypothetical question at this point.

Q Back on China, some Democrats on the Hill who support you have questioned why you are having this vote now, before the EU has signed on, before all of the parties are signed on, and why not put it off until next year when the political pressures are different and when there are other signatories have joined on so that you can better put pressure to bear on balking members of Congress who have been saying, why are we signing on now when so many others haven't --

SECRETARY SUMMERS: Let me say it is the terms of the way the WTO operates, that the commitments that China has made to us are irrevocable and are extended to others on an MFN basis. In the event that they make further trade liberalization commitments to the EU, those will be extended to us on an MFN basis. And so from this point forward, it can only get better.

We believe that in terms of what this ought to be about, which is the pursuit of U.S. interests, reaching this agreement as possible, reducing uncertainties, and allowing American workers and firms to realize the substantial commercial benefits of this agreement, starting as rapidly as possible, is very much in the national interest. And that's why we've moved to want to see this take place as soon as possible.

Q Gene, I was going to ask you, Professor Solow said that unions are often protectionist in their trade policy. Is that a position you agree with? And how much trouble does union opposition to this present to the party as it tries to win back Congress next year?

MR. SPERLING: I don't think there is any question that we have had good-faith, honorable disagreements with many people, union leaders who, on many issues we have found more common ground. I think that we agree on the diagnosis of the problems in China on human rights and labor rights. I think that we just disagree very much on what the remedy is. And we feel that opening China up to more of our ideas, more of our information -- as Larry said, right now have 12 percent of Chinese citizens have access to the phone; less than 2 percent to the Internet.

Our feeling is that opening China and, yes, allowing U.S. companies with the practices of U.S. companies and the values of U.S. companies and the competition that that will help bring into the telecom, Internet, all of these areas, we believe, will move the ball forward on trade -- excuse me, on bringing economic reform to China.

I think that our President still believes that there is hope in the future for bringing people more towards a new consensus on trade. And our aspiration is one -- a trade policy that is vigorously open market, that vigorously believes in the benefits towards innovation and growth and low inflation from an open-market policy, both in terms of exports and imports; but one that also through a variety of measures ensures that what we're doing is lifting all standards and not a race to the bottom.

And many of the things that we are involved in are efforts against child labor -- the efforts that Larry Summers and others have been so involved in in terms of dealing with infectious diseases in third world countries -- all of these, these are all -- I am going to a conference tomorrow in Africa about what we are doing globally to try to bring universal literacy and get kids out of factories and into schools. All of these are efforts that can be part of a new consensus in which one is strongly open-market but is taking other steps to make sure we're not having a race to the bottom; that we are lifting standards everywhere. I think this is the new consensus that we have to go forward with. And I think we are still hopeful that -- and this President has been hopeful -- that that can still be reached in the future. And the reason that I think he has spoken out on this issue in Geneva at Davos is that beyond passing PNTR for China and the Africa CBI bill, and even the possibility of relaunching a new WTO round, I think this President would very much like to lay a framework for people to come together on this issue in the future.

Q If you would imagine a situation in which Congress does not pass PNTR, isn't it likely that many of the benefits that you've been talking about today in terms of reforming China --

MR. SPERLING: If you were a sports announcer, would you be one of these guys who kind of go up to somebody and say, now if you get eliminated in the first round of NBA playoffs -- you know, this is a tough vote, and we're planning on prevailing ultimately.

Q But if -- in that situation, isn't it likely that a lot of the benefits that you've been laying out in terms of reforming China, building respect for rule of law, expanding the Internet, increasing private enterprise in China, those things would happen anyway, wouldn't they? And that China would be in the WTO -- there would be European and Japanese companies in there doing the things that you've been talking about --

MR. SPERLING: Let me make a couple of points. Within China, there are clearly people who are pushing forward for economic reform who are willing to take enormous risks in moving towards market liberalization at the risk of significant political and economic dislocation. Many of these people have staked their credibility on not just the entry into the WTO, but normalization of trade relationships between the U.S. and China. Were we to rebuke China at this point, I think there is no question that we would be strengthening the forces of resistance and the status quo within China, and weakening the hands of those who are taking the leadership in this type of reform. So I think that it would be a very serious setback for reform.

Secondly, we believe that American companies and their influence will not only speed the pace of competition and development in telecom and Internet particularly, which are the areas that are maybe most important in bringing more economic freedom, greater development of ideas and exchange of ideas. And to keep American companies out of that would not only, as I said, be economic unilateral disarmament, but would also again, I think, be a further setback for the progress we're trying to achieve.

But I do think that if those -- I think if opponents should come forward and say at least what their argument is, that they are willing to support a situation in which all of our competitors, in which we will participate in a WTO process that opens China's markets and that lets our competitors get a competitive advantage over us -- we will take -- that they want to take a specific vote that will say to every American industry at the cutting edge of the world economy, that we want to take a unilateral step to give our foreign competitors a leg up and an advantage in the fastest growing market in the world. Tell me how that will be good for American prosperity, good for American jobs, good for American competition and for American innovation.

SECRETARY SUMMERS: Can I just add something? I think you've raised a very important question, and I think there are two parts to the answer. One is that for the United States and U.S. business to be excluded from a reforming China would be overwhelmingly not in America's national interest in terms of job creation, in terms of our capacity to influence the way in which China evolves.

The second is that because of our role in the global economy, because of our success as a major economy, the participation of the United States in the WTO agreement with China is important for that agreement's ability to bring about and to support the reform process within China. When I visited with Zhu Rongji in October of last year, we discussed WTO accession. And our discussion didn't focus on the details of the negotiation. That was Charlene's purview. We focused on what this meant for the relationship between our two economies. And he stressed that what was important to him was the role of WTO and American participation within it in providing a framework and in providing reinforcement and providing a ratchet under the reform process in China.

And so, for both reasons, I think we would be sacrificing a very important opportunity to advance American national interests within China and American national interests in what happens to China if PNTR were not to pass this year.

Q Any plans for an Oval Office address or a joint address to Congress, Gene? Any discussion --

Q You're not going to address --

MR. SPERLING: Many options are on the table.

END 11:45 A.M. EDT