

# FOIA MARKER

This is not a textual record. This is used as an administrative marker by the Clinton Presidential Library Staff.

|                                                         |               |             |                |             |
|---------------------------------------------------------|---------------|-------------|----------------|-------------|
| Folder Title:<br>China II [1]                           |               |             |                |             |
| Staff Office-Individual:<br>Speechwriting-Orzulak, Paul |               |             |                |             |
| Original OA/ID Number:<br>4022                          |               |             |                |             |
| Row:<br>48                                              | Section:<br>6 | Shelf:<br>9 | Position:<br>2 | Stack:<br>v |

# Withdrawal/Redaction Sheet

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                                                      | DATE       | RESTRICTION |
|--------------------------|----------------------------------------------------------------------------------------------------|------------|-------------|
| 001. email               | To Donald A. Mitchell from Miles M. Lackey. Subject: Talking points for Samuel R. Berger (3 pages) | 02/19/2000 | P1/b(1)     |
| 002. notes               | re: Internal meeting concerning China speech (3 pages)                                             | n.d.       | P5          |

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Speechwriting (Paul Orzulak)  
OA/Box Number: 4022

### FOLDER TITLE:

China II [1]

2008-0702-F

jm202

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

P1 National Security Classified Information [(a)(1) of the PRA]  
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
P3 Release would violate a Federal statute [(a)(3) of the PRA]  
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]  
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

b(1) National security classified information [(b)(1) of the FOIA]  
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]  
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]  
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]  
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]  
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]  
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

## TALKING POINTS ON CHINA/WTO

- You know that passage of PNTR is very important to me. It is one of the most important things we can get done together.
- As I have said before, we need to have a vote on this soon so that we will have the best chance of passage.
- You all have been terrific leaders of this effort in your respective caucuses.
- In particular I want to thank Bob Matsui and Cal Dooley and David Dreier for working with us and the outside community and really running the operation to see this legislation passed.
- I also want to thank my cabinet, particularly the members here today, Trade Representative Barshefsky, Secretary Glickman, and Secretary Daley as well as my National Security Advisor, Sandy Berger and the Chairman of the National Economic Council, Gene Sperling. They have also been tireless in their efforts to make sure as many people as humanly possible are aware of the benefits that this agreement will bring to the United States.
- You all know by now that my chief of staff, John Podesta and his deputy Steve Richetti are working with Secretary Daley and Chuck Brain and the entire administration to focus our efforts and ensure a good vote in the Congress.
- I plan to do my part.
- I know that most of you heard me talk about this in the State of the Union, I have also talked about it in Davos, and last Monday I even talked about it at the Democratic Caucus retreat. As you know not everyone in the Democratic Caucus agrees with me -- with us -- that PNTR for China is such a good deal, but this is so important that I do not feel I can miss any opportunity to stress it.
- I will continue to talk about China/WTO, and my cabinet will continue to talk about this every opportunity we get or can make.
- We had a very good event last week that John Podesta with representatives from the agriculture community and I know that votes prevented a number of you from joining us in that effort. We will continue to have opportunities to work together like that and I hope we will take advantage of them.
- I plan to deliver a speech on China this month to highlight the benefits that will flow to the American people if we grant PNTR status to China. I want people to understand that China is opening **its** market, that China is making the concessions in this deal. And I want to underline the national security stakes in our relationship with the Chinese.

- We will also arrange in the next month an event to shine the spotlight on high-tech opportunities to expand trade and open new channels for American ideas and values to filter into China.
- Finally we'll be organizing a Congressional Delegation visit to China, possibly in April. I encourage you to think about how we can use this to best effect.
- I know that you are familiar with the agreement and share my view that it is good for America
- I don't believe there can be a serious question that this agreement is in America's interest. This agreement requires that China open its market on everything from agriculture to manufacturing – while we agree only to maintain the market access we already offer to China. It will create jobs and exports for Americans by allowing our companies, for the first time, to competitively sell products in China without having to open factories in China itself. And it responds to unfair trade practices in China, including import surges.
- The importance of this agreement goes far beyond its economic benefits, and so does the debate that surrounds it. In our talks with Members of Congress, most do not challenge the agreement on economic grounds. Critics say: China is a growing threat to Taiwan and its neighbors, and we shouldn't strengthen it. China is a drag on labor and environmental standards, and we shouldn't engage it. China is an offender of human rights, and we shouldn't reward it. But we cannot let this be defined as economic rights versus human rights – or economic security versus national security. It's a trap, a false choice.
- This agreement is just as vital – if not more vital – to our national security as it is to our economic security. To understand how, we need to understand the dilemma China finds itself in today. Over the last 20 years, China has lifted more than 200 million people out of absolute poverty. But its workforce is increasing by 12 million each year. Millions are migrating from the countryside, where they see no future, to cities, where only some find work. And economic growth has slowed just when it needs to be rising to create new jobs.
- China's leaders face a dilemma: opening China's antiquated markets to global competition risks unleashing forces beyond their control -- unemployment, social unrest, increasing domestic pressure for political change. Yet, if they don't open their economy to outside competition, China will not build world-class industries that can survive in the global economy. With this WTO agreement, China has chosen to speed the opening of its economy, despite the political risks. Do we really want to reject that choice? On the contrary. Our interests lie in embracing it.
- Bringing China into the WTO will promote the change we seek in three ways.
- *First, it will obligate China to deepen its market reforms.* With lower tariffs, and greater competition, China's private sector will expand; its state sector will shrink. Chinese firms will learn that unless they treat employees with greater respect, they will lose the top talent to

# Withdrawal/Redaction Marker

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                                                      | DATE       | RESTRICTION |
|--------------------------|----------------------------------------------------------------------------------------------------|------------|-------------|
| 001. email               | To Donald A. Mitchell from Miles M. Lackey. Subject: Talking points for Samuel R. Berger (3 pages) | 02/19/2000 | P1/b(1)     |

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Speechwriting (Paul Orzulak)  
OA/Box Number: 4022

### FOLDER TITLE:

China II [1]

2008-0702-F

jm202

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**Orzulak, Paul K. (SPCHW)**

---

**From:** Lackey, Miles M. (LEGIS)  
**Sent:** Saturday, February 19, 2000 2:38 PM  
**To:** Orzulak, Paul K. (SPCHW)  
**Subject:** FW: February 18 David Lane meeting [UNCLASSIFIED]

here's the lane group readout

-----Original Message-----

**From:** Sutphen, Mona K. (NSA)  
**Sent:** Saturday, February 19, 2000 2:16 PM  
**To:** Lackey, Miles M. (LEGIS); @NSA - Natl Security Advisor  
**Cc:** @CHINAPNTR - China PNTR; @LEGISLAT - Legislative Affairs  
**Subject:** RE: February 18 David Lane meeting [UNCLASSIFIED]

miles/tom/jim/leavy -

on the 2/24 speech srb commented that the speech is ours and is 15 minutes; we need 3 minutes on economics (w/5-10 "auto" examples in our pocket); 5-7 minutes on nat'l interest; 2 minutes on 'all out effort'.

re: march 1 event, he said he understood this event would be done by the domestic side and should make the econ case.

re: 3/9 "framing speech", he said this one should be ours.

-----Original Message-----

**From:** Lackey, Miles M. (LEGIS)  
**Sent:** Saturday, February 19, 2000 12:18 PM  
**To:** @NSA - Natl Security Advisor  
**Cc:** @CHINAPNTR - China PNTR; @LEGISLAT - Legislative Affairs  
**Subject:** FW: February 18 David Lane meeting [UNCLASSIFIED]

**PLEASE PASS TO SANDY**

**From: Dan**

**February 18 David Lane Meeting**

**Upcoming POTUS Events**

- **February 24 -- POTUS speech to the Business Council; will spell out Administration effort; urge them to help educate the public on the benefits of PNTR**
- **February 28 -- National Governors Association -- POTUS will meet with them and make pitch on PNTR; after the meeting, co-chairs Glendening and Leavitt will speak to press and report that the Governors are with the President on this; (although some 45 of 50 Governors support PNTR, the formal way of expressing support -- through a resolution -- is held up in the Economic Development committee by its chairman, Gov. Hodges of South Carolina, who opposes PNTR over fears of losing textile jobs).**

- **March 1 -- Hi-tech event; details TBD; would involve POTUS speaking to workers at a hi-tech company that exports to China, focusing on tangible benefits of WTO and PNTR.**
- **March 9 -- POTUS to make a big, framing speech, similar in scope as SRB speech -- focused on economic, strategic, human rights benefits of PNTR; could be out of town; could be before an opinion leaders group like Council on Foreign Relations.**

### **Thematic Overview**

**Lane sketched out the following notional strategy of when the primary focus should be on various arguments:**

- **Now to Mid-March: Make the case on the economic benefits of the agreement and PNTR**
- **Mid-March to Mid-April: Make the case on how WTO and PNTR help other areas -- human rights, Taiwan, etc.**
- **Mid April-onward: Begin focus on how this vote will be one of those rare votes of truly historic significance -- one of the most important most Members will ever cast.**

### **Other Developments**

- **Business community leaders are very upset about the news reports of the VP's meetings with labor leaders in New Orleans -- fear it will give cover to wavering Democrats to seek a delay in the vote or vote no. Lane, Daley, and others are meeting with them.**
- **POTUS and others are enthusiastic about an idea that emerged in the Members meetings -- sending various cabinet officials out to meet with editorial board of local newspapers and doing local talk radio and other media. Lane group will coordinate assignments.**
- **State Department rolls out its annual human rights report Feb. 25. It will be hard-hitting on China. Principals will want to discuss how aggressive to be in including the "PNTR will help human rights" argument in the roll-out.**
- **Barshefsky will testify before Senate Finance Committee Wednesday. From her Ways and Means hearing, she owes Rangel a response to his question of why the 1979 U.S.-China agreement doesn't grant China all the benefits of PNTR.**
- **USTR should have the PNTR website up and running in a few days. Interagency-cleared documents will be placed on it, unless USTR believes they would significantly alter China's negotiating posture in its EU and**

**other talks.**

- **State has drawn up a notional itinerary for two CODELs to China during the April recesses. Stops would include Beijing, Shanghai, and Hong Kong. Meetings with Chinese officials, human rights activists, U.S. business community. Chuck Brain group will develop invite list from among target Members.**

Sutphen, Mona K. (NSA)

From: Malinowski, Tomasz P. (SPCHW)  
Sent: Monday, February 07, 2000 8:09 PM  
To: @NSA - Natl Security Advisor  
Cc: @LEGAL - Legal Advisor; @SPEECH - NSC Speechwriters  
Subject: china speech [UNCLASSIFIED]

For SRB:

This version of the speech reflects the conversation I just had with Jamie and Caroline Krass. It still emphasizes that this is going to be a hard fight and that there is a broad coalition arrayed against us, but does not specifically ask your audience to do anything. They feel strongly you can't go further, and Jamie is standing by to explain.

- Tom

TOM/PAUL-

Let's discuss

TUES am

Ⓟ

↓  
Bob Burt

Chairman of BKT

Chair of FMC Corporation



srb-china1\_.doc

2/7/00 3:30 p.m.  
Orzulak

**NATIONAL SECURITY ADVISOR SAMUEL R. BERGER  
REMARKS TO  
THE BUSINESS ROUNDTABLE  
ON CHINA  
WASHINGTON, D.C.  
FEBRUARY 8, 2000**

~~It's~~ <sup>gfs</sup> hard to believe that it was six years ago when I ~~first~~ <sup>met</sup> with some of you to discuss the North American Free Trade Agreement. That was one of the toughest fights that we have had since 1993. But when I ~~wake up in the morning~~ <sup>see</sup> that America now has the longest economic expansion in our history -- and I see both Mexico and Canada enjoying opportunities ~~expanding X-fold since -~~ <sup>our trade with</sup> they never had before -- I know that NAFTA and our commitment to open trade had something to do with that.

But this year, we in the Administration have a fight on our hands that will make NAFTA look like a walk in the park. Unlike the battle over NAFTA, this fight involves two issues that -- individually and together -- make up the third rail of American politics today: trade and China. The fight over China's entry into the World Trade Organization is going to be unlike anything we've ever seen. Unless we go all-out to get this passed we are not going to win.

*at back*  
*NEW INTRO - no higher tone*  
There is no question that this agreement <sup>is in America's economic interest.</sup> will be an absolute home run for America. For years, China has had open access to our markets, while its markets have been in many ways closed to American products and American services. This agreement requires China to open its market on everything from agriculture to manufacturing to high tech -- while we have agreed only to maintain the market access we already offer to China. It directly responds to concerns about unfair trade practices in China. For the first time, U.S. companies will be able to competitively sell and distribute in China products made by American workers here at home, rather than being forced to open factories there.

*Don't like NAFTA beginning - now starting w/ points of this -*  
*Went to talk to you about decision our country will soon make that is not only important to your companies and industries*  
*our only important country + world, i.e. speak to at US*

*not Cong Rep Dir.*

For an industry like autos, for example, the agreement would cut tariffs by nearly 75 percent. American auto makers will no longer have to find a Chinese middle-man to sell through, or to transfer technology to their Chinese competitors. And American manufacturers, for the first time, will 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. 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 would mean to both of our economies.

*But this agreement goes beyond its manifest economic benefits. And I don't believe the*  
 All of you already know that. *you* But when we talk to Members of Congress, most are not going to challenge *you* us on economic grounds. Critics are likely to say that: China is a growing threat to Taiwan and its neighbors, and we shouldn't strengthen it. Or China is a blight on labor rights and environmental standards, and we shouldn't engage it. Or China is a dangerous proliferator, and we shouldn't empower it. And many, if not most, of the concerns they will raise on these issues will be absolutely legitimate. *Human Rights*

*what does that mean? eyes?*

But this debate should not be defined in terms of economic rights versus human rights – or economic security versus national security – because that is a trap, it's a false choice. Bringing China into the WTO is about so much more than trade. This agreement is just as vital – if not more vital – to our national security as it is to our economic security. *(It will move China in the right direction, not the wrong direction,)*  
*debate, must* If we are going to win this *direction,* fight, we are going to have to carry the argument that it promotes both. So I want to talk for a *on* few minutes tonight about how this agreement will advance our *all* *these* *other* *concerns.* *overall* national interests by encouraging the right kind of change in China.

To understand how, we need to understand the dilemma China finds itself in today. Over the last 20 years, China has made remarkable progress in building a new economy, lifting more than 200 million people out of absolute poverty. But it still faces daunting economic problems. Its system is plagued by corruption. Private enterprise still accounts for less than one-third of China's economy. China's workforce is increasing by 12 million each year. Millions are migrating from

the countryside, where they see no future, to the cities, where only some find work. And economic growth has slowed just when it needs to be rising to create new jobs. China clearly cannot maintain stability or ensure prosperity by maintaining the status quo.

Hence the dilemma: China's leaders realize that opening China's antiquated markets to global competition risks unleashing forces beyond their control -- unemployment, social unrest, increasing domestic pressure for political change. Yet, if they don't move forward, China cannot make the next critical leap in development, because without competition from the outside, it will not build world-class industries that can survive in the global economy.

With this agreement, China has chosen to speed the opening of its economy, despite the political risks that entails. Opponents of this agreement need to answer the question: do they really want us to reject that choice? The fact is, 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. And bringing China into the WTO will help in three ways.

W/ what  
I've  
cut, I'd  
flesh this  
out:  
more like  
speech.  
more about  
stability  
or  
status quo

First, it will obligate China to deepen its market reforms. With lower tariffs, and greater competition, its private sector will expand; its state sector will shrink.

The introduction of competition results in natural pressure for progress. A decade ago, China's best and brightest college students 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 China in developing human resources -- by emphasizing teamwork and respect for individual rights. In turn, Chinese firms are increasingly learning that

unless they change their working style and treat employees with respect, they will lose the 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 for Chinese workers – and their expectations.

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

In the past, the Chinese state was every citizens' employer, landlord, shopkeeper, and news provider all rolled into one. By advancing the flow of information, the pace of privatization, and the forces of competition, 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.

~~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 two weeks ago, 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, 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. You know all too well: in this age, you cannot expect people to be creative economically and stifled politically. Bringing China into the WTO doesn't guarantee it will choose political reform. But by accelerating the process of economic change, it will force China to confront that choice sooner, and make the imperative for the right choice far more powerful.

This agreement will advance our national interests in a third way: 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 agreements, some of China's most important decisions will be subject, 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 global community, not outside of it.

Opponents of this agreement will counter these arguments by saying it doesn't matter what we agree to because China will just break its promises. Of course, we cannot know for sure. But we do have reasons to believe that it will comply, 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 China's leaders believe reform is in China's interest. Second, if China violates its commitments, we're still in a better position, because it will confront judgments backed by a 135-member body, rather than being able to chalk it up to supposed U.S. bullying.

Some will say that if we let China into the WTO, it will give China a platform to weaken norms on labor rights and environmental standards. But the fact is, most 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. *not a BRT argument*

*Some* ~~Others~~ will argue that granting China permanent normal trade relations status is granting a favor that China hasn't earned. But it's important to understand what PNTR means: simply that we will give China the same tariff schedule we have given to 132 of the 134 countries in the WTO, and China will do likewise for us. It would eliminate the annual vote on China's trade status, which we do not apply to any other WTO member. *argue we* ~~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. And 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.

Finally, others will argue that we are sacrificing human rights on the altar of trade. In fact, locking China out of the WTO would be a blow to the very cause they and we support. It 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. And no one could possibly benefit from that except the most rigid, anti-democratic elements in China itself. That's one reason reformers like Martin Lee and dissidents like Ren Wanding support this agreement.

*Let me be* ~~But we also have to make clear:~~ bringing China into the WTO is not, by itself, a human rights policy for the United States. The reality is that China continues today to suppress the voices of those who challenge the rule of the Communist Party. It will change only by a combination of *stronger sentence for speech*

internal pressures for change and external validation of its human rights struggle. And we must maintain our leadership in the latter, even as the WTO agreement contributes to the former.

That's why we named China as a "country of particular concern" under the International Religious Freedom Act last year. It is why we are once again sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record. 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.

In other words, we must not and we are not relying on the ~~invisible hand of the~~ market to do all our heavy lifting with China, and neither should the private sector. What does that mean for American companies doing business in China? It means recommitting yourselves to upholding high environmental standards and labor rights in China. It means pressing Chinese authorities to move further and faster toward economic reform, the rule of law, and respect for human rights, for that is the only way China can avoid instability and realize its growth potential. It also means working with some of the one million nonprofit and social organizations that have emerged in China to reform the system from within; like the U.S.-China Business Council's Legal Cooperation Fund - which among other things, has an active campaign underway to encourage respect for intellectual property rights. We have argued that American business can be a force for change in China. Part of your job is to prove us right.

I don't want to give them this lecture. Santorum The govt. and companies doing business in China!

But first, we ~~have to get~~ <sup>must get</sup> this agreement through the United States Congress. And we can't

underestimate for a second how hard that is going to be. <sup>(Third rail)</sup> The agreement is opposed by ~~many~~ <sup>what they stand for and what they do, be</sup>

<sup>an eclectic</sup> coalition, from labor to the religious right. <sup>It creates real splits in both parties.</sup> Democratic leaders are warning that it will split the

party. Republican leaders are reporting defections. And the press is nearly united in their belief

that this is an uphill fight in any year, let alone an election year.

It brings together  
Teddy Kennedy  
and Bob [??]

agents of  
change in  
China.  
This agreement  
necessary

8

*will have no more*  
~~the President and every key person in the Admin~~  
I'll promise you this: ~~the Administration is going to do our part.~~ For if we fail to obtain PNTR,  
the United States risks losing the full market access benefits of the agreement. I don't need to  
tell you that in a global economy, American business would be put at an enormous disadvantage,  
essentially shut off from one fifth of the world – while our European, Japanese, and other  
competitors would be more than willing to fill the void. But let me tell you what that failure  
would mean for our country. On the ~~heels of last year's defeat of the~~ *senate's rejection last year of the* Comprehensive Test Ban  
Treaty, it would send a signal to the rest of the world that America truly has turned inward –  
which would be devastating. It would mean to all of our allies and partners that in today's  
global economy, America's word is not its bond. *will undertake the most intensive effort possible...*

We can't afford that. Since President Nixon went to China in 1972, the United States has  
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 non-proliferation to human rights to trade. This agreement is an  
unprecedented opportunity to advance all of those goals. We are working hard to avoid letting  
this opportunity slip through our fingers. Thank you.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 4, 2000

STATEMENT BY THE PRESS SECRETARY

1999 NATIONAL SECURITY STRATEGY REPORT

Today President Clinton transmitted the 1999 National Security Strategy Report to Congress, as required annually by the Goldwater-Nichols Act of 1986. The report, entitled "A National Security Strategy for a New Century," outlines the President's vision for America's role in the world and discusses the Administration's international priorities.

The three core objectives of U.S. national security strategy are to enhance America's security, to bolster America's economic prosperity, and to promote democracy abroad. Central to the President's strategy for achieving these aims is U.S. engagement and leadership in world affairs.

America has done much over the past seven years to build a better world: aiding the remarkable transitions to free-market democracy in Eastern Europe; adapting and enlarging NATO to strengthen Europe's security; stopping ethnic wars in Bosnia and Kosovo; working with Russia to deactivate thousands of nuclear weapons from the former Soviet Union; ratifying START II and the Chemical Weapons Convention; negotiating the Comprehensive Nuclear Test Ban Treaty and strengthening the Conventional Armed Forces in Europe Treaty; freezing North Korean fissile material production; facilitating milestone agreements in the Middle East peace process; standing up to the threat from Saddam Hussein; helping broker peace accords from Northern Ireland to Sierra Leone to the Peru-Ecuador border; fostering unprecedented unity, democracy and progress in the Western Hemisphere; benefiting our economy by reaching over 270 trade agreements, including the landmark accord to bring China into the World Trade Organization; reducing Africa's debt through the Cologne Initiative and the Heavily Indebted Poor Countries Initiative; exercising global leadership to help save Mexico from economic disaster and to reverse the Asian financial crisis.

Our military is -- and will continue to be -- capable of carrying out our national strategy by meeting America's defense commitments around the world. The report describes the

**Orzulak, Paul K. (SPCHW)**

---

**From:** Keith, James R. (ASIA)  
**Sent:** Wednesday, January 26, 2000 11:03 AM  
**To:** Orzulak, Paul K. (SPCHW); @SPEECH - NSC Speechwriters  
**Cc:** @ASIA - Asian Affairs  
**Subject:** More background/context for SRB speech [UNCLASSIFIED]  
**Importance:** High

Paul: some additiional facts on Shanghai then and now.

-- HOME OWNERSHIP. TODAY APPROXIMATELY 25 PERCENT OF SHANGHAI HOUSEHOLDS OWN THEIR OWN HOMES. ALMOST ALL OF THIS HAS HAPPENED IN THE PAST THREE YEARS. TEN YEARS AGO, PEOPLE IN CHINA COULD NOT OWN THEIR OWN HOMES.

-- AVAILABILITY OF FOOD. TEN YEARS AGO, THERE WERE NO "SUPERMARKETS" IN SHANGHAI. THE CITIZENS OF SHANGHAI WOULD BUY FOOD FROM STATE-RUN OUTLETS WITH NO CUSTOMER CHOICE. MANY STAPLES REQUIRED FOOD COUPONS ISSUED BY WORK UNITS FOR PURCHASE. BY 1998, THERE WERE 1000 SUPERMARKETS IN SHANGHAI (MOST STILL STATE-RUN) WHERE CONSUMERS WALK AISLES AND CHOOSE FROM A VARIETY OF FOOD ITEMS. THERE IS NO MORE RATIONING OF ANY FOOD ITEMS.

-- TRAVEL/TOURISM. A DECADE AGO, DOMESTIC TOURISM WAS LIMITED AND THERE WAS VIRTUALLY NO PRIVATELY-ARRANGED INTERNATIONAL TOURISM. TODAY, RESTRICTIONS ON INTERNATIONAL TRAVEL BY CHINESE CITIZENS HAVE ALL BUT BEEN ELIMINATED. FOR CHINESE NEW YEAR 1999, AIRLINES ADDED 256 CHARTER FLIGHTS TO INTERNATIONAL DESTINATIONS FROM SHANGHAI ALONE.

-- SPORTS PARTICIPATION. TEN YEARS AGO, THERE WERE FEW OPPORTUNITIES FOR PRIVATE CITIZENS TO RECREATE, BEYOND A CHESS GAME IN THE PARK. TODAY, THERE IS A PROLIFERATION OF RECREATIONAL OPPORTUNITIES. SHANGHAI NOW SPORTS 182 BOWLING ALLEYS--AND THEY ARE PACKED.

-- PRIVATE ENTERPRISE. MAYOR XU KUANGDI SAYS THAT PRIVATE ENTERPRISE NOW ACCOUNTS FOR 10 PERCENT OF SHANGHAI'S ECONOMIC OUTPUT, AND IF FOREIGN INVESTED ENTERPRISES ARE INCLUDED, THE FIGURE IS NEARLY 40 PERCENT.

-- PRIVATE SCHOOLS. ALTHOUGH WE DO NOT HAVE DATA ON THE NUMBERS, THERE ARE MANY PRIVATE SCHOOLS OPERATING IN SHANGHAI -- INCLUDING ONE PRIVATE UNIVERSITY. AGAIN, PRIVATE SCHOOLS WERE VIRTUALLY NON-EXISTENT TEN YEARS AGO.

SINCE 1992, SHANGHAI HAS BEEN THE CHINESE CITY MOST OPEN TO INTERNATIONAL ECONOMIC INFLUENCE. AS SUCH, IT STANDS AS A MODEL FOR WHAT THE REST OF CHINA WILL INCREASINGLY LOOK LIKE WHEN PNTR/WTO WORKS TO PRY OPEN CHINA'S OTHER CITIES AND PROVINCES.

Vie

1/29/00 9:00 a.m.

Orzulak

**NATIONAL SECURITY ADVISOR SAMUEL R. BERGER  
REMARKS TO  
THE WOODROW WILSON CENTER  
ON CHINA  
WASHINGTON, D.C.  
FEBRUARY 4, 2000**

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

That's a little bit how it feels to address the Wilson Center. For more than 50 years, this body has helped America think through the most challenging foreign policy issues of the day. On behalf of the President, I want to thank you for all you have done to help our Administration and the American people build a safer, better, more prosperous world.

Last week, we heard the President give a powerful summary of America's place in the world. It's not hard to feel optimistic about the future. America today is enjoying the longest economic expansion in its history. Our military strength is unchallenged. Our alliances are strong. Our values are ascendant. Eighty years after Woodrow Wilson hoped that American leadership would make the world safe for democracy – today, for the first time in history, more than half the world's population live under governments of their own choosing.

But as the President said last Thursday, this is not a world without dangers to us. There is a chance that our security could be threatened by regional conflicts that pose the risk of a wider war, especially those rooted in ethnic and religious tensions. There is a danger that the inexorable march of technology will give terrorists and hostile nations the means to undermine our defenses, and force us to live again in fear. There is a chance that the stability of the 21<sup>st</sup> Century will 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 in their effort to emerge as stable, prosperous, democratic partners of the United States.

Today, I want to talk about China. For three decades, America has labored to help shape a China with an economy that is open to American products, farmers, and businesses. A China whose people have access to ideas and information. A China that upholds the rule of law and plays by global rules on everything from nuclear non-proliferation to human rights to trade. This year, we have the best opportunity we have ever had to begin to turn those goals into a reality. The issue,

of course, is China's entry into the World Trade Organization.

Last fall, we negotiated an agreement to bring China into the WTO in a way that will advance all of those goals, while benefiting America in unprecedented new ways. But to realize those benefits, we have a decision to make: will Congress support granting China permanent Normal Trade Relations status, which is our part of the deal, and the same exact arrangement we have given to every one of our partners in the WTO? Or will Congress turn its back on the most sweeping democratic changes China has agreed to make in its history, settle for the status quo, and risk even more lost ground on the issues we care about?

We know that this is going to be a difficult debate, because there are a lot of honest people on both sides of the aisle who have real questions about China. But let me take a few minutes today to talk about why supporting this agreement – and voting yes on permanent NTR for China -- is the right thing to do.

Every trade debate begins with the simple question: will our nation be better off with this agreement, or without it? 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 is an absolute home run for America.

For more than a decade, critics have complained that China has had significant access to our markets, while their markets have been virtually closed to American products and services. That has been largely true. The incredible thing about this agreement is that China makes huge new concessions to open its market to America – but America doesn't have to give China any new access to our markets. It's the trade equivalent of a one-way street. China values the promise of WTO membership so highly that it is willing to open a gaping hole in its markets to us. But we promise only to maintain the market access policies we already apply to China. So rejecting this agreement will in no way affect China's access to our markets. It will only continue to limit our access to theirs, and continue to ensure that our trade deficit remains high.

On the numbers alone, this agreement will dramatically expand our access to a market of more than 1.3 billion people. China's economy is already among the world's largest. Over the past 20 years, it has expanded at an extraordinary rate. During this period, U.S. exports to China have grown from negligible levels to more than \$14 billion in goods and services each year and now supports 400,000 American jobs. These figures will grow substantially with the new access that the WTO agreement creates.

On key agricultural products, China's tariffs will drop by 60 percent by January 2004 – and dramatically expand export opportunities for our farmers who grow bulk commodities like wheat, rice, and corn. Tariffs on industrial products will drop by nearly two-thirds, from 25 percent in 1997 to an average of 9.4 percent by 2005. Both our manufacturers and our farmers will gain the right to distribute freely inside China, without going through state trading companies or middle men. And on products such as computers, semiconductors, and Internet-related equipment, tariffs will shrink to zero by the year 2005. Our information technology firms lead the world and stand to do very well in China's huge, information-hungry market.

The agreement also opens China's market for services, including distribution, insurance, telecommunications, banking, professional and environmental services. Here, too, American firms are world leaders and will find tremendous opportunities in China.

And it directly responds to concerns raised by Republicans and Democrats alike about unfair trade practices in China. The agreement provides safeguards to prevent unfair competition that would harm American workers. It includes a "product-specific" safeguard that allows us to take trade measures focused on China in case of an import surge that threatens a particular U.S. industry. It provides strong protections against "dumping" the sale of goods in our market below the producer's costs. And under the agreement, we will have, for the first time, effective means to combat Chinese practices – such as forced technology transfers and local content requirements – that drain jobs, investment and technology from the United States. Most importantly, our businesses will be able to export to China from home, rather than being forced to set up factories in China to sell products there.

That is what this agreement means in principle. But just think about what it means in practice.

Look at the auto industry. Right now, a car made in Dearborn faces an 80 to 100 percent tariff before it can be sold in Shanghai – which prices us right out of the market. So if you want to sell cars in China, you actually have to go to China. And what you do is, you find a Chinese middle-man, either a state-run or private-run firm – because American firms aren't allowed to directly own anything in China – and you contract to have an equity stake in the company. But then, to sell your cars, the law says you have to teach the Chinese how to make them. So you have to transfer a huge amount of your technology to China, teach them how to use it, and then you leave it to them to make your cars -- which essentially means you are transferring both your product and your training to your eventual competitors. Of course, it's also against the law to import American car parts, so you have to work with Chinese vendors to set up components processors, and train them how to make those, too.

And of course, Americans are not allowed to run distribution centers, so once your parts are made, it is in the hands of the Chinese to sell those, too. On top of that, Americans are not allowed to set up service centers, either. Since there is no real service industry, most Chinese buy cars with the understanding that they have to learn how to fix them too – if they can get the parts. Of course, all that assumes that the Chinese can buy the cars in the first place, because the only financing that is allowed in China is through state-run banks – but they don't make loans for cars. Little wonder that there are more bicycles in Beijing than automobiles.

That's how it works now. Under the new agreement, it's completely different. Tariffs on American cars fall by 75 percent, so we can compete in Beijing. The requirement that we have to produce the cars in China is eliminated. So is the requirement that we have to transfer our own technology. What's more, American manufacturers will now be free to ship parts made in America into China, to set up their own distribution centers, and to run their own service shops – which means, for the first time, Chinese who buy cars will actually be able to get them fixed by the manufacturer. On top of all that, China also agreed to let our car companies like GM and Ford set up financing operations in China itself, to help the Chinese buy our cars.

From our perspective, it means that we're going to sell a lot more American-made and American-assembled cars in China, which means a lot more American jobs. In return, the Chinese end up with much better products at lower prices.

Take that example and multiply it out across all of our other industries – from manufacturing to high-tech to insurance to agriculture – and you begin to get an idea of how much prosperity this deal could bring to both the American and Chinese economies. You also realize it won't take long to see the balance on that trade deficit shift dramatically.

That is what America gets under the trade agreement we negotiated last fall. All we are required to do in return is to grant China permanent normal trade relations status, to bring China into the WTO. It's important to understand what that means: permanent NTR is not a favor to China, it is the best way to level the playing field. It is the same arrangement we have with the other 135 nations who are our partners in the WTO. It is the entry fee that nations pay to join the world trading system. It simply means that we will give you the same tariff schedule we apply to every other nation in the world, and you will give us yours. In other words, for WTO rules to apply to trade between the U.S. and China, each country must grant the other unconditional NTR and must treat the country in the same way it treats all other WTO members.

Of course, passing permanent NTR with China does not mean that Congress is permanently barred from ever revisiting the issue of Chinese trade. Congress always has the authority to visit our trading relationships with any nation, as well as any other part of our relationship with China, and that's the way it should be. What it will do is get us out of the cycle we are now in, where the future of Chinese trade comes up for a vote every single year in Congress. Annual renewal of NTR does not meet the test for membership in the WTO. As a nation, it is in our interest to encourage American companies to help us build a more open, democratic China. It is difficult to build the long-term relationships that make those efforts possible if there is a new threat every single year that they will be disrupted.

It's also fair to ask: how do we know that China won't cheat? With any trade agreement we sign, there is always the possibility that there will be violations. Right now, if China violates our trade agreement, 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 on everything from intellectual property to dumping. Most importantly, as a member of the WTO, China must also agree to submit disputes to that body for adjudication. China could ignore these decisions by thwarting the collective will of the WTO's 135 members – an unwise course if it wants to reap the benefits of global trade. In the end, this agreement gives America much better protections and mechanisms to handle disputes, while making no new demands upon our markets.

If Congress votes yes on PNTR, we will get open markets and more American jobs. If Congress votes no, it would deny American firms the ability to enter the Chinese market under WTO rules, and cancel the special import protections and vastly expanded trading rights that we negotiated. As a result, American farmers and firms will almost certainly be put at a tremendous competitive disadvantage against European and Japanese competitors as they stake out privileged positions in one of the 21<sup>st</sup> Century's biggest markets. Without permanent NTR, America would become the

only major country that gets left behind.

The economic benefits of this deal to America are clear. But that is not the end of the argument. This agreement is just as vital to our national security interests. As a nation, we have a tremendous stake in how China evolves. A large part of our future is tied to Asia. The stability of Asia – both economically and militarily – is tied directly to the stability of China, the largest nation in the world. As China develops, the light it shines or the shadow it casts will be felt very far from its own borders in the 21<sup>st</sup> Century.

Today, we face some fundamental questions: will China become an open, democratic society that respects the human rights and freedoms of all its people – or will it continue to operate behind a great wall of secrecy, repression, and fear? Will it come to grips with the need for economic reform to ensure its own viability in this increasingly globalized world – or will it be a nation unable to deal with its own problems, and collapse from within? Will it develop in a way that pulls it into the international community and sees it play by international rules – or will it stay outside the system and be the world's next great threat to freedom and security? How China answers those questions will have a profound effect on our own security in the 21<sup>st</sup> Century. There are no magic solutions to any one of these questions. But one thing we do know: bringing China into the WTO will help move it in the right direction on each of these issues.

To understand why, we need to see China clearly – its progress and its problems, its system and its strains, its policies and its perceptions of us, of itself, and the world.

In the last 20 years, China has made incredible progress in building a new economy, lifting more than 200 million people out of absolute poverty. But China's 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 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 20 percent of the non-farm economy. State-held stock still accounts for 62 percent of all the equity issued by companies listed on China's stock exchange. Much of China's landscape is still dominated by unprofitable polluting state industries. China state banks are still making massive loans to struggling state firms, the sector of the economy least likely to succeed.

Last year, I met with Premier Zhu. I know that he is committed to making far-reaching changes. They also know that in the short run, reform will cause more unemployment, and more unrest. Last year alone, the State Economic and Trade Commission ordered the closing of 25,000 small coal mines. That came on top of a government reorganization that cut the formal employment in the central government in half. While they cut the government, so far they have been unwilling to open China's political system because they see that as contributing to instability when, in fact, giving people a say in their decisions actually provides a peaceful outlet for venting frustration.

China's biggest challenge through all this will be to maintain stability and growth at home by

meeting, not stifling, the growing demands of its people for openness and accountability. It is easy for us to say; for them, it is a daunting task.

What does this mean for us? As the President has said, 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 challenge that a strong China could present to the United States in the future, let us not forget the risk of a weak China, beset by internal conflicts, social dislocation and criminal activity, becoming a vast zone of instability in Asia.

The solutions fundamentally lie in the choices China makes. We have an interest in seeking to make a difference to help shape a China that is stable, democratic, and prosperous. We should not pretend that the outcome is foreordained. China's entry into the WTO will help meet these challenges in three fundamental ways.

First, it will obligate China to deepen its market reforms, and empower leaders who want their country to move further and faster toward economic freedom. One thing we have learned in the global economy is that nations can move from an agrarian society to a low-tech society fairly easily. But it's a much harder step to move from making textiles in a closed system to making cars and high-tech consumer products that people want to purchase. One example is South Korea, who tried to grow behind the walls of protection. When it opened its market, it collapsed, because it was making things that nobody wanted to buy.

Premier Zhu and reform-minded leaders in China know the South Korea example well. They understand that opening their markets by lowering tariffs exposes China's state-run industries to competition, many of which will not be able to compete if they don't privatize. But they also understand that this is something they have to do.

Let's go back to that auto industry example I gave a few minutes ago. The auto industry in China vehemently opposes this agreement. Why? Because it knows that when Ford and GM and Chrysler start to sell cars at competitive prices in the Chinese market, many state-run firms will be forced to go belly-up. They just can't compete with the technology that we have in our cars. But reformers in China are also betting that those firms that do adapt and survive -- like Honda did in Japan -- will become global players. At the same time, they also know that if they are going to develop into a 21st Century economy and compete in a globalized world, the Chinese need more than bicycles and unreliable trains, which they have now. As a society, they will need the mobility that automobiles afford.

In some places, they have already seen the positive effects of competition. Six years ago, the American insurance giant AIG won the right to sell insurance in Shanghai. Almost immediately, they captured 30 percent of the market, because they offered services like life insurance and risk insurance that Shanghai had never seen before. But it didn't take long for the Chinese to learn what kinds of insurance products you need in a marketing economy, and they diversified. Today, AIG has just 11 percent of the market, but it's a much bigger market, because there is so much more competition. Meanwhile, tens of thousands of people in Shanghai have the benefit of

things like life insurance that they never had before.

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

Industry surveys show that U.S. companies are the leaders in the Chinese market in developing human resources -- by placing an emphasis on teamwork and respect for individual rights. If we have learned anything in this country the past twenty years, we have learned that talent will flow to the places and companies where employees feel most valued. More and more, Chinese firms are learning that unless they change their working style and treat employees with respect, they will lose out on the critical war for talent. That process will only accelerate as China joins the WTO, and we should do all we can to encourage it.

Second, this agreement will accelerate a process that is removing the government from vast areas of people's lives, and move China toward a more open and free society.

Let's not forget what communism is. In the past, the Chinese state was employer, landlord, shopkeeper and news-provider all rolled into one. This agreement will accelerate a process that is already beginning to remove government from vast areas of people's lives.

[Shanghai examples]

But we shouldn't overstate the freedoms being won in China today. Just last week,

## Orzulak, Paul K. (SPCHW)

---

**From:** Malinowski, Tomasz P. (SPCHW)  
**Sent:** Friday, January 28, 2000 4:36 PM  
**To:** Orzulak, Paul K. (SPCHW)  
**Subject:** FW: POTUS Q&A On Internet [UNCLASSIFIED]

They like it! They like it!

Can you use in the speech?

-----Original Message-----

**From:** Lieberthal, Kenneth G. (ASIA)  
**Sent:** Friday, January 28, 2000 4:26 PM  
**To:** Lee, Malcolm R. (NEC); Malinowski, Tomasz P. (SPCHW); @PRESS - Public Affairs; @SPEECH - NSC Speechwriters; @ASIA - Asian Affairs; @INTECON - Economic Affairs; Rudman, Mara E. (NSA); Shapiro, Daniel B. (LEGIS)  
**Subject:** RE: POTUS Q&A On Internet [UNCLASSIFIED]

I like it, too. Go ahead.

-----Original Message-----

**From:** Lee, Malcolm R. (NEC)  
**Sent:** Friday, January 28, 2000 4:10 PM  
**To:** Malinowski, Tomasz P. (SPCHW); Lieberthal, Kenneth G. (ASIA); @PRESS - Public Affairs; @SPEECH - NSC Speechwriters; @ASIA - Asian Affairs; @INTECON - Economic Affairs; Rudman, Mara E. (NSA); Shapiro, Daniel B. (LEGIS)  
**Subject:** RE: POTUS Q&A On Internet [UNCLASSIFIED]

I like it.

-----Original Message-----

**From:** Malinowski, Tomasz P. (SPCHW)  
**Sent:** Friday, January 28, 2000 3:48 PM  
**To:** Lee, Malcolm R. (NEC); Lieberthal, Kenneth G. (ASIA); @PRESS - Public Affairs; @SPEECH - NSC Speechwriters; @ASIA - Asian Affairs; @INTECON - Economic Affairs; Rudman, Mara E. (NSA); Shapiro, Daniel B. (LEGIS)  
**Subject:** RE: POTUS Q&A On Internet [UNCLASSIFIED]

It's OK

I would add:

The fact that the Chinese government is pushing back against these changes proves that the changes are real -- and deeply threatening to the status quo. It's not an argument for slowing down the effort to bring China into the world; it's an argument for accelerating it.

-----Original Message-----

**From:** Lee, Malcolm R. (NEC)  
**Sent:** Friday, January 28, 2000 3:35 PM  
**To:** Lieberthal, Kenneth G. (ASIA); @PRESS - Public Affairs; @SPEECH - NSC Speechwriters; @ASIA - Asian Affairs; @INTECON - Economic Affairs; Rudman, Mara E. (NSA); Shapiro, Daniel B. (LEGIS)  
**Subject:** POTUS Q&A On Internet [UNCLASSIFIED]

Ken; Prince in the chief of staff's office has suggested an edit to the last tick in the internet Q&A, tracking the general point the President made in his SOTU speech last night on China WTO. I think it is a good one. ML

Q: How do you square China's WTO commitment to allow international internet access with their recently announced efforts to control content, including "state secrets"?

- I believe China understands that it needs the Internet to succeed in its economic development and reform, but is struggling, with the Internet as it has in other areas, with consequences of greater openness.

- Obviously, the U.S. and other WTO members have their own rules about protection of classified information. Our concern is that such protections not be used to chill legitimate commercial and public discourse on the Internet.
- I would expect China once it enters the WTO to live up to its commitment to allow access to commercial and public information from other WTO members.
- The key fact is that China, in committing to international internet access, is beginning a process of opening whose consequences no one can foresee. China's membership in the WTO will bring more ideas and information to the Chinese people. That is good for China and good for the world.

accelerate its progress toward joining the rules-based community of nations.

- US-China Accession Agreement has very strong terms. We look forward to China's completing its agreements with other WTO members and remaining work in Geneva so that it can enter the WTO as soon as possible.
- At home, we are working very hard to obtain necessary Congressional support for PNTR for China. This is one of my highest priorities this year.
- Granting China PNTR will guarantee that US business can benefit fully from the provisions of China's WTO accession. This is in the interest of American business, labor, and agriculture.

(If asked)

**Q: Why is PNTR necessary? Can't the U.S. get the benefits of the agreement without PNTR, as some have suggested?**

- No. The United States must grant China permanent Normal Trade Relations status or risk losing the full benefits of the agreement we negotiated, including special import protections, vastly expanded trading rights, and rights to enforce China's commitments through WTO dispute settlement.
- If Congress were to refuse to allow the United States to grant China permanent NTR, our Asian, Latin American and European competitors would reap these benefits but American farmers and businesses could well be left behind.

**Q: Won't China thwart your reform agenda on labor, the environment and greater openness of the WTO?**

- I do not believe so. As we made clear in Seattle, the United States believes there is a need for greater discussion and progress on these issues in the WTO.
- The developing and industrialized world have not reached a consensus on how to move forward. These are difficult but important issues. But I believe that if we are able to form a positive consensus with developing nations on how to move forward, that China would join that consensus.

**Q: How do you square China's WTO commitment to allow international internet access with their recently announced efforts to control content, including "state secrets"?**

- I believe China understands that it needs the Internet to succeed in its economic development and reform, but is struggling, with the Internet as it has in other areas, with consequences of greater

openness.

- Obviously, the U.S. and other WTO members have their own rules about protection of classified information. Our concern is that such protections not be used to chill legitimate commercial and public discourse on the Internet.
- I would expect China once it enters the WTO to live up to its commitment to allow access to commercial and public information from other WTO members.
- Increased access to the Internet, and the greater commercial openness that that China's membership in the WTO would bring, will invariably bring more ideas and information to the Chinese people. That is good for China and good for the world.

Sino-US Relations Over Coming Ten years  
Memorial for A. Doak Barnett  
October 6, 1999  
SAIS

I. Can never be certain about what will shape relations over a period of a decade. But countries generally act in their fundamental interests, even if passions occasionally intrude, too. If U.S. and China act in their fundamental interests, then we have reason to expect a relationship that remains viable, cooperative in many respects, and also has continuing elements of friction.

II. Key interests involved in *bilateral relationship*

A. China:

1. Economic - continue to require access to US market and technologies and to avoid sanctions that would limit US investment.
2. Diplomatic/Strategic - reduce US regional dominance, cooperate with US to maintain peace, develop military capabilities to impose costs on US if necessary. *Korean peninsula*
3. Environmental - *large problems + real future constraints* access US technology, organizational know-how, and capital to mitigate pressing environmental problems.

B. US:

1. Diplomatic/Strategic - Strengthen Chinese cooperation in nonproliferation, regional tension reduction and peacekeeping.
2. Economic - constructive Chinese participation in global trading, IPR, and other regimes,

access Chinese market and production resources.

3. Environmental - encourage "clean" technologies, strengthen Chinese cooperation in global environmental efforts.

4. *Dynamic stability that results from making the changes necessary to meet the*  
~~Stability and progress that, as I will explain~~ *needs*  
~~below, entail making progress on what is~~ *and aspirations*  
~~typically dubbed a "human rights" agenda.~~ *of its people.*

C. Note:

1. Most of above items are reasonably compatible; our interests do not fundamentally clash.
2. We do differ to some extent in the degree of American political and military strength with which we are comfortable in the region. But both countries have an ongoing interest in keeping this difference well short of producing armed conflict.

D. To re-phrase and summarize:

1. China has an interest in an America that is receptive to cooperation with the PRC and that does not seek to constrain China's economic growth and international weight.
2. The US has an interest in a China that is successful in meeting the needs of its people domestically and is motivated to participate constructively in the international arena.
3. The above is what both side<sup>s</sup> have in mind when they have used the phrase "constructive strategic partnership."

III. What could go wrong? Fundamentally, five things.

A. China fails to meet the basic requirements of its population and become<sup>s</sup> highly unstable.

1. Note: This is a danger too little considered. It would pose problems - potentially including loose nukes, transnational crime, out-migration, and environmental disasters, among others - that we do not know how to handle.

2. Ostensibly, the major issue here is economic. But need to consider the nature of the international economy in the coming years in order to appreciate the changes China will have to make to do well.

3. Increasingly, the international economy will be globally interdependent, market driven, high information, technologically dynamic, competing for global pools of capital based on concentrations of skills, technology, property rights protection, and efficiency.

4. For success, will need a society that is, <sup>high</sup> information, permits creative thinking and risk taking, ruled by law, with protection of intellectual and physical property rights, high mobility, and high levels of education. Its government will have to enjoy substantial legitimacy to absorb the shocks of global interdependence. And it will also have to be highly competitive.

5. Three things to note about the above characterization.

a. Much of this list of attribute<sup>s</sup> overlaps heavily with the "human rights" agenda the US promotes.

*highly authoritarian  
gov'ts do not have these  
characteristics*

*law  
thought  
expression  
choice  
mobility  
responsive, legitimate government*

*Can China just muddle through with more of the same?*

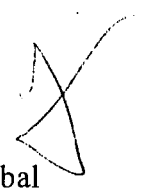
- b. China, despite 20 years of enormously impressive reforms, does not yet have wholly indigenous manufacturing or service enterprises that are internationally competitive on any basis other than cheap labor. China must open up in a fundamentally new way, in short, in order to produce Chinese enterprises that are dynamically efficient at international levels. *This will require serious system reforms*
- c. The Chinese population, because of the global communications revolution, will be keenly aware of the extent to which the country falls short - and this can, thus, impact on stability.

#### B. Conflict across the Taiwan Strait

- 1. Perhaps over the coming decade the most dangerous issue in Asia.
- 2. In the worst case, conflict across the Strait could end up ~~pitting the US and China in a conflict that would affect~~ the future of the entire region for years to come, with everyone a major loser.

*will almost certainly occur*  
C. NMD/TMD Deployment, if badly mishandled, could potentially accelerate arms races, increase threat perceptions, and decrease stability throughout the region.

D. Conflict on the Korean peninsula could produce wide-ranging horrendous consequences, especially in terms of ensuing developments involving the US, Japan, and China.



A central challenge we will face in the new century is to help bring China into the global community as an open, prosperous and stable nation. The way the world's largest nation develops will have a profound impact on the future of the world. And China's destiny is far from foreordained.

If China is isolated and its people are denied the chance to pursue their legitimate aspirations, this emerging power could one day emerge as a military threat. If China stumbles on the path to economic and political reform, it could threaten us in a different way, by becoming a weaker country, beset by internal conflicts and social dislocation.

It is in our interest to see the emergence of a prosperous China with an economy that is open to American exports. A China whose people have access to ideas and information. A China that upholds the rule of law at home and that plays by global rules of the road on everything from nuclear non-proliferation to human rights to trade.

Bringing China into the WTO on the terms we have negotiated will advance all these goals. It will open a growing market to American workers, farmers, and businesses. And more than any other step we can take right now, it will encourage China to choose reform, openness, and integration with the world. For these reasons, I will make it a top priority in the new year to seek Congressional support for Permanent Normal Trade Relations [NTR] with China, so that we can benefit when China joins the WTO.

### **A Good Deal for America**

In terms of creating economic opportunities, the China WTO agreement is a "win-win" for both the United States and China. But when it comes to tariffs, it is China that makes one-way concessions to open its market to American goods and services. That's right. *The United States*

*makes no new market access commitments.* We promise only to maintain the market access policies we already apply to China. China values its current access to our market and the promise of WTO membership so highly that it is willing to make significant market-opening concessions to us. And these commitments are enforceable in the WTO. If China is found to have violated them, we will have the right to take retaliatory trade steps against China.

This agreement will dramatically expand our access to a market of over 1.3 billion people. China's economy is already among the world's largest. Over the past 20 years, it has expanded at an extraordinary rate. During this period, U.S. exports to China have grown from negligible levels to over \$14 billion in goods and services each year and now support nearly 400,000 American jobs. These figures can grow substantially with the new access that the WTO agreement creates.

On key U.S. agricultural products, China's tariffs will drop from an average of 31.5% to 14.4% by January 2004. The deal will significantly expand export opportunities for bulk commodities such as wheat, corn and rice. Sales in the Chinese market will be a boon to American farmers, many of whom have struggled through tough times recently.

Tariffs on U.S. industrial products will fall from an average of 24.6% in 1997 to an average of 9.4% by 2005. Our manufacturers, as well as our farmers, will gain the right to trade and distribute freely inside China, without going through state trading enterprises or middle men.

Tariffs on products such as computers, semiconductors, and all Internet-related equipment will shrink from an average of 13.3% to zero by 2005. Our information technology firms lead the world and stand to do very well in China's huge, expanding and information-hungry market.

The agreement also opens China's market for services, including distribution, insurance, telecommunications, banking and professional services. Here, too, American firms are world leaders and will find tremendous opportunity in China.

The agreement provides safeguards to prevent unfair competition that would harm American workers. It includes a "product-specific" safeguard that allows us to take trade measures focused on China in case of an import surge that threatens a particular U.S. industry. This protection remains in effect a full 12 years after China enters the WTO and is stronger and more targeted relief than is provided under current U.S. law.

The agreement also provides strong protections against "dumping," the sale of goods in our market below the producer's costs. We fought hard in negotiations and got China to agree that for fifteen years after its accession to the WTO, the United States may employ special methods, designed for non-market economies, to counteract dumping.

And under the agreement, we will have, for the first time, effective means to combat Chinese practices -- such as forced technology transfer and local content requirements -- that drain jobs, investment and technology from the U.S. Our businesses will be able to export to China from home, rather than being forced to set up factories in China in order to sell products there.

The agreement also increases our leverage with China in the event of a future trade dispute. As a member of the WTO, China must agree to submit disputes to that body for adjudication. China could ignore these decisions only by thwarting the collective will of the WTO's 135 members; an unwise course if wants to reap the benefits of global trade.

Under WTO rules, we can and we will -- even when dealing with a country that has NTR status -- continue to block imports of goods made with prison labor, maintain our export control policies,

enforce our trade laws, and, in a national security emergency, withdraw benefits, including NTR itself.

These measures take account of, and in many cases are based upon, concerns raised by American workers before and during the negotiations. As a result, no agreement on any nation's accession to the WTO has ever contained tougher measures to strengthen guarantees of fair trade.

A negative vote by the Congress would deny American firms the ability to enter the Chinese market under WTO rules. It might force American farmers and businesses to look on helplessly as European and Japanese competitors stake out privileged positions in one of the 21<sup>st</sup> century's biggest markets.

### **Promoting the Rule of Law, Economic Freedom, and Human Rights in China**

The economic benefits of this deal to America are clear. But that is not the end of the argument. For there is no contradiction here between expanding trade, projecting our values, and protecting our security. On the contrary; bringing China into the WTO advances all three goals.

To understand why, we need to see China clearly – its progress and its problems, its system and its strains, its policies and its perceptions of us, of itself and the world.

In the last 20 years, China has made incredible progress in building a new economy, lifting more than 200 million people out of absolute poverty. But China's 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 economic growth has slowed just when it needs to be rising to create jobs for the unemployed and to maintain support for economic reform.

I have met a number of times with Chinese President Jiang and with Prime Minister Zhu, and I know they are working hard to reform China's banks and state enterprises and to fight corruption. But China's progress is still held back by resistance to political reforms vital to its long term stability. As I have argued to China's leaders many times, China will be less likely to succeed if its people cannot exchange information freely; if it does not build the legal and political foundation to compete for global capital; if its political system doesn't gain the legitimacy that comes from democratic choice.

That is another reason why bringing China into the WTO is so important.

The agreement obligates China to deepen its market reforms, empowering leaders who want their country to move further and faster toward economic freedom. It will give Chinese as well as foreign businesses freedom to import and export on their own, and to sell their products without going through government middle-men. It will open China's telecommunications market, giving its people greater access to uncensored information through satellites and the Internet.

In the past, the Chinese state was employer, landlord, shopkeeper and news-provider all rolled into one. This agreement will accelerate a process that is removing the government from vast areas of China's economic life. China's people will have greater scope to live their lives as they see fit. And as they become more mobile, more prosperous, more aware of alternative ways of life, they will seek greater say in the decisions that affect their lives.

The agreement also obliges the Chinese government to publish laws and regulations and subjects pertinent decisions to the review of an international body. That will strengthen the rule of law in

China, and increase the likelihood that it will play by global rules as well. It will advance our larger interest in bringing China into international agreements and institutions that can make it a more constructive player in the world, with a stake in preserving peace and stability, instead of reverting to the status of a brooding giant at the edge of the community of nations.

Many courageous proponents of change in China agree. Martin Lee, the 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." 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."

Of course, this trade agreement alone cannot bring the change we all seek. We must and will continue to speak out on behalf of people in China who are persecuted for their political and religious beliefs; to press China to respect global norms on non-proliferation; to encourage China to be part of the solution to the problem of global climate change. And we will hold China to the obligations it is accepting by joining the WTO.

Won't solve  
all problems



In short, we will protect our interests with firmness and candor. But we must do so without isolating China from the global forces empowering its people to build a better future. For 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.

In sum, bringing China into the WTO will boost American exports and strengthen the American economy. And it is simply the most effective means we have to encourage China to choose deeper economic reform and respect for the rule of law; to choose to play by international rules instead of defying them; to choose integration with the world instead of self-isolation.

This deal advances our interests and our values. I am confident that after a vigorous debate, it will have the support of the Congress and the American people.

Draft 01/07/00 7:00 pm  
Heather Hurlburt

**PRESIDENT WILLIAM J. CLINTON  
DEPARTURE STATEMENT  
THE WHITE HOUSE  
WASHINGTON, DC  
January 10, 2000**

Good afternoon. I am very proud to introduce the people who will be leading our all-out effort to secure Permanent Normal Trade Relations status for China, to make sure the United States benefits when China enters the World Trade Organization.

This is vital for America's economy, and America's future; and it is important for the kind of China we want to see. That is why I have asked Secretary of Commerce Bill Daley and my deputy chief of staff Steve Ricchetti to lead the team, and why we have such broad participation from my Cabinet here today: Secretary of State Albright, Treasury Secretary Summers, Agriculture Secretary Glickman, USTR Barshefsky, my chief of staff John Podesta, National Security Adviser Sandy Berger, and head of the National Economic Council Gene Sperling.

They are meeting today to discuss the strategy for making our case to the American people. We are meeting with members of Congress, business and labor and others across this country, to talk about why this is the right thing for the United States, the right thing for workers and investors, and ultimately the right way to encourage more openness and reform in 21<sup>st</sup> century China.

This agreement is a home run for America. China gains no new market access to the United States, nothing beyond what they already have. In fact, we will gain tough new safeguards against the dumping of products and surges of imports that have hurt Americans in the past.

American products will gain better access to China's market in every sector from agriculture to telecommunications to automobiles. China's tariffs on U.S. goods will fall by half or more over the next five years. And by joining the WTO, China agrees to play by the same trade rules we do. To provide fair conditions for businesses and investors. To enforce contracts, open up to outside information, and ensure greater respect for the rule of law.

This agreement is also a good deal for the people of China. They gain access to new goods and services. They gain more access to the outside world, from books and movies to computers and the Internet. And they gain access to new ideas and debates – about personal freedom and opportunity. About democracy and the role of the state. And about how China can look to the world not as an enemy but a partner for the century ahead.

Bringing China into the WTO will protect our prosperity and promote the right kind of change. It is good for our farmers, our manufacturers, our workers and our investors. And by encouraging China to play by international rules it is an important step toward a safer, saner world. We will be working hard over the coming weeks and months to make sure we don't let this opportunity pass America by. Thank you very much.

China has 8.9 million Internet users in winter 2000, versus 2 million a year ago, according to Chinese govt stats.

-- THE INTRODUCTION OF COMPETITION RESULTS IN NATURAL PRESSURE FOR PROGRESS. A DECADE AGO, CHINA'S BEST AND BRIGHTEST COLLEGE GRADUATES WOULD SEEK JOBS IN THE GOVERNMENT, IN LARGE STATE OWNED FIRMS, OR IN STATE-RUN UNIVERSITIES OR SCIENTIFIC INSTITUTES. NOW THE BEST AND BRIGHTEST ARE CHOOSING TO WORK FOR FOREIGN INVESTED ENTERPRISES OR STARTING THEIR OWN COMPANIES. IN FOREIGN INVESTED ENTERPRISES NOT ONLY DO THEY GET HIGHER PAY, BUT ALSO A BETTER WORK ENVIRONMENT WHERE THEY ARE REWARDED FOR THEIR ACHIEVEMENTS AND NOT FOR POLITICAL CONNECTIONS. IN SUCH AN ENVIRONMENT, CHINESE WORKERS ENJOY A SAFE AND CLEAN WORKPLACE WHERE THEY ARE RESPECTED AND WHERE THEIR INPUT IS VALUED. IMBUED WITH THE VALUES OF TEAMWORK, RESPECT FOR INDIVIDUAL RIGHTS, AND ENVIRONMENTAL RESPONSIBILITY, THIS RISING GENERATION WILL HAVE AN INCALCULABLE IMPACT ON CHINA'S FUTURE. INDUSTRY SURVEYS SHOW THAT U.S. COMPANIES ARE THE LEADER IN THE CHINESE MARKET IN DEVELOPING HUMAN RESOURCES. CHINESE FIRMS ARE LEARNING THAT IF THEY CANNOT CHANGE THEIR WORKING STYLE TO MEET THE STANDARDS OF FOREIGN FIRMS, THEY WILL LOSE OUT ON THE CRITICAL WAR FOR TALENT.

-- THE STORY OF A FEW INDIVIDUALS ALSO HIGHLIGHTS THE POTENTIAL BENEFITS OF WTO:

-- ONE YOUNG MAN GRADUATED AT THE TOP OF HIS CLASS FROM ONE OF SHANGHAI'S BEST UNIVERSITIES SEVERAL YEARS AGO. HE DECIDED TO TAKE A JOB WITH A FOREIGN FINANCIAL SERVICES FIRM AND QUICKLY CLIMBED THE RANKS TO BECOME VICE PRESIDENT. TODAY, JUST SHY OF THIRTY YEARS OLD, HE OWNS HIS OWN HOME AND HAS HIS OWN MEDICAL INSURANCE AND PENSION PLAN. HIS WIFE WORKS FOR THE EQUIVALENT OF A LOCAL DISTRICT ATTORNEYS OFFICE. WHAT IS PERHAPS MOST STRIKING, IS THAT HE IS PLANNING TO HAVE TWO CHILDREN. HE ADMITS THAT HE MAY HAVE TO PAY A FINE AND THAT HIS WIFE MAY HAVE TO FIND A NEW JOB, BUT WITH HIS JOB AT A FOREIGN FIRM, IT IS THEIR CHOICE TO MAKE. WTO ENTRY WILL PROVIDE MORE SUCH OPPORTUNITIES FOR PEOPLE TO MAKE CHOICES ABOUT KEY LIFE DECISIONS.

-- ABOUT TEN YEARS AGO, ANOTHER MAN GRADUATED WITH AN ENGLISH DEGREE FROM A SMALL COLLEGE AND WENT TO WORK AT A JOINT VENTURE HOTEL IN A SMALL GROCERY STORE. AFTER A FEW YEARS, WITH AN INVESTMENT OF 2000 RMB (APPROXIMATELY 240 USD) TO RENT A SMALL ROOM, A DESK, AND A BICYCLE, HE STARTED A GROCERY DELIVERY SERVICE CATERING TO EXPATRIATES IN SHANGHAI. USING HIS PROCEEDS, A FEW YEARS LATER HE STARTED A GROCERY STORE, STOCKED ALMOST ENTIRELY WITH IMPORTED GOODS. NOW HE HAS EXPANDED TO TEN GROCERY STORES IN THE SHANGHAI AREA AND HAS A DELIVERY SERVICE THAT COVERS SEVERAL PROVINCES IN EASTERN CHINA. STILL, HOWEVER, HE CANNOT GET A BANK LOAN AND IS TOO SMALL TO QUALIFY FOR A FOREIGN PARTNER UNDER CURRENT RULES TO FURTHER EXPAND HIS BUSINESS. WTO ENTRY MEANS FOR EASIER ACCESS TO CREDIT AND THE POSSIBILITY OF PARTNERING WITH A FOREIGN GROCER TO GAIN MORE EXPERTISE AND LOWER IMPORTATION COSTS. FOR ENTREPRENEURS LIKE HIM, WTO ENTRY MEANS GREATER OPPORTUNITIES FOR PRIVATE ENTERPRISE AND THE CHANCE TO BUILD THEIR DREAMS.

-- IN THE HOT INTERNET SECTOR, A MAN FROM EASTERN CHINA JUMPED ON THE BANDWAGON EARLY IN 1995 BEFORE MOST CHINESE HAD EVEN HEARD OF THE INTERNET. AFTER FAILING IN HIS DREAM TO STUDY ABROAD, HE STARTED HIS FIRST COMPANY, WHICH WAS A MODERATE SUCCESS. HE THEN SPENT FIFTEEN MONTHS IN A CHINESE MINISTRY HELPING IT TO GET ONLINE. NOW HE HAS STARTED A COMPANY THE SPECIALIZES IN BUSINESS TO BUSINESS COMMERCE, NOTABLY ONE OF THE SECTORS IN CHINA THAT IS MOST RIPE WITH CORRUPTION. ALTHOUGH THE COMPANY IS ACTUALLY BASED IN CHINA, IT HAD TO OFFICIALLY REGISTER IN HONG KONG TO BE ABLE TO RECEIVE FOREIGN INVESTMENT. THE COMPANY HAS NOW RECEIVED OVER 20 MILLION DOLLARS FROM A VENTURE CAPITAL GROUP. IF SUCCESSFUL, HIS COMPANY WILL REVOLUTIONIZE THE WAY BUSINESSES RUN THEIR PURCHASING AND PROCUREMENT OPERATIONS IN CHINA MAKING THEM TRANSPARENT AND LESS PRONE TO KICKBACKS AND BRIBES. WTO ENTRY FOR CHINA WILL ELIMINATE THE RESTRICTIONS ON FOREIGN INVESTMENT IN THE INTERNET SECTOR AND GO A LONG WAY TOWARD MAKING CHINA A KEY ONRAMP ON THE INFORMATION SUPERHIGHWAY.

# Withdrawal/Redaction Marker

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|--------------------------|---------------|------|-------------|
|--------------------------|---------------|------|-------------|

|            |                                                        |      |    |
|------------|--------------------------------------------------------|------|----|
| 002. notes | re: Internal meeting concerning China speech (3 pages) | n.d. | P5 |
|------------|--------------------------------------------------------|------|----|

### COLLECTION:

Clinton Presidential Records  
National Security Council  
Speechwriting (Paul Orzulak)  
OA/Box Number: 4022

### FOLDER TITLE:

China II [1]

2008-0702-F

jm202

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]  
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
P3 Release would violate a Federal statute [(a)(3) of the PRA]  
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]  
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]  
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]  
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]  
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]  
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]  
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]  
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

**Orzulak, Paul K. (SPCHW)**

---

**From:** Lieberthal, Kenneth G. (ASIA)  
**Sent:** Friday, January 28, 2000 6:44 PM  
**To:** @CHINAPNTR - China PNTR  
**Cc:** @ASIA - Asian Affairs  
**Subject:** PNTR vs. Annual Renewal [UNCLASSIFIED]

The argument we make to explain why retaining annual renewal of NTR will not suffice - and therefore PNTR is necessary - is probably the most important single item in the materials we are putting out. I have talked extensively with John Jackson, who is one of the world's leading legal experts on the WTO. He makes a compelling case that annual renewal will not meet the WTO test. I can lay out that case in detail if you wish. For now, though, I want to see whether we can get agreement on the following language. I am circulating this simply to put it on the PNTR Group's agenda. Thanks.

"For WTO rules to apply to trade between the US and China, each country must grant the other unconditional NTR and must treat the country in the same way it treats all other WTO members. US provision for annual renewal of NTR does not meet these tests. Without granting China permanent NTR, in short, American firms will almost certainly be put at a tremendous competitive disadvantage against firms from all other countries in the China market. Our WTO agreement with China vastly improves our access to the Chinese market over current arrangements. We must grant permanent NTR to avoid being the only country that does not enjoy these enhanced provisions."

Ken

1/29/00 9:00 a.m.

Orzulak

**NATIONAL SECURITY ADVISOR SAMUEL R. BERGER  
REMARKS TO  
THE WILSON CENTER  
ON CHINA  
WASHINGTON, D.C.  
FEBRUARY 4, 2000**

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

That's a little bit how it feels to address the Wilson Center. For more than 50 years, this body has helped America think through the most challenging foreign policy issues of the day. On behalf of the President, I want to thank you for all you have done to help our Administration and the American people build a safer, better, more prosperous world.

Last week, we heard the President give a powerful summary of America's place in the world at the beginning of a new century. It's not hard to feel optimistic about the future. America today is enjoying the longest economic expansion in its history. Our military strength is unchallenged. Our alliances are strong. Our values are ascendant. Eighty years after Woodrow Wilson hoped that American leadership would make the world safe for democracy – today, for the first time in history, more than half the world's population live under governments of their own choosing.

But as the President said last Thursday, this is not a world without dangers to us. There is a chance that our security could be threatened by regional conflicts that pose the risk of a wider war, especially those rooted in ethnic and religious tensions. There is a danger that the inexorable march of technology will give terrorists and hostile nations the means to undermine our defenses, and force us to live again in fear. There is a chance that the stability of the 21<sup>st</sup> Century will 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 in their effort to emerge as stable, prosperous, democratic partners of the United States.

Today, I want to talk about China. For three decades, America has labored to help shape a China with an economy that is open to American products, farmers, and businesses. A China whose people have access to ideas and information. A China that upholds the rule of law and plays by global rules on everything from nuclear non-proliferation to human rights to trade. This year, we have the best opportunity we have ever had to begin to turn those goals into a reality. The issue, of course, is China's entry into the World Trade Organization.

Last fall, we negotiated an agreement to bring China into the WTO in a way that will advance all of those goals, while benefiting America in unprecedented new ways. But to realize those benefits, we have a decision to make: will Congress support granting China permanent Normal

Trade Relations status, which is our part of the deal, and the same exact carrot we have given to every one of our partners in the WTO? Or will Congress turn its back on the most sweeping democratic changes China has agreed to make in its history, settle for the status quo, and risk even more lost ground on the issues we care about?

We know that this is going to be a difficult debate, because there are a lot of honest people on both sides of the aisle who have real questions about China. But let me take a few minutes today to talk about why supporting this agreement – and voting yes on permanent NTR for China -- is the right thing to do.

Every trade debate begins with the simple question: will our nation be better off with this agreement, or without it? 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 is an absolute home run for America.

For more than a decade, critics have complained that China has had significant access to our markets, while their markets have been virtually closed to American products and services. And that has been largely true. The incredible thing about this agreement is that China makes huge new concessions to open its market to America – but America doesn't have to give China any new access to our markets. It's the trade equivalent of a one-way street. China values the promise of WTO membership so highly that it is willing to open a gaping hole in its markets to us. But we promise only to maintain the market access policies we already apply to China. So rejecting this agreement will in no way affect China's access to our markets. It will only continue to limit our access to theirs, and continue to ensure that our trade deficit remains high.

On the numbers alone, this agreement will dramatically expand our access to a market of more than 1.3 billion people. China's economy is already among the world's largest. Over the past 20 years, it has expanded at an extraordinary rate. During this period, U.S. exports to China have grown from negligible levels to more than \$14 billion in goods and services each year and now supports 400,000 American jobs. These figures will grow substantially with the new access that the WTO agreement creates.

On key agricultural products, China's tariffs will drop by 60 percent by January 2004 – and dramatically expand export opportunities for our farmers who grow bulk commodities like wheat, rice, and corn. Tariffs on industrial products will drop by nearly two-thirds, from 25 percent in 1997 to an average of 9.4 percent by 2005. Both our manufacturers and our farmers will gain the right to trade and distribute freely inside China, without going through state trading companies or middle men. And on products such as computers, semiconductors, and all Internet-related equipment, tariffs will shrink to zero by the year 2005. Our information technology firms lead the world and stand to do very well in China's huge, expanding, and information-hungry market.

The agreement also opens China's market for services, including distribution, insurance, telecommunications, banking, professional and environmental services. Here, too, American firms are world leaders and will find tremendous opportunities in China.

And it directly responds to concerns raised by Republicans and Democrats alike about unfair trade practices in China. The agreement provides safeguards to prevent unfair competition that

would harm American workers. It includes a “product-specific” safeguard that allows us to take trade measures focused on China in case of an import surge that threatens a particular U.S. industry. It provides strong protections against “dumping” the sale of goods in our market below the producer’s costs. And under the agreement, we will have, for the first time, effective means to combat Chinese practices – such as forced technology transfers and local content requirements – that drain jobs, investment and technology from the United States. Most importantly, our businesses will be able to export to China from home, rather than being forced to set up factories in China to sell products there.

That is what this agreement means in principle. But just think about what it means in practice.

Look at the auto industry. Right now, a car made in Dearborn faces an 80 to 100 percent tariff before it can be sold in Shanghai —which prices us right out of the market. So if you want to sell cars in China, you actually have to go to China. And what you do is, you find a Chinese middle-man, either a state-run or private-run firm – because American firms aren’t allowed to directly own anything in China – and you contract to have an equity stake in the company. But then, to sell your cars, the law says you have to teach the Chinese how to make them. So you have to transfer a huge amount of your technology to China, teach them how to use it, and then you leave it to them to make your cars -- which essentially means you are transferring both your product and your training to your eventual competitors. Of course, it’s also against the law to import American car parts, so you have to work with Chinese vendors to set up components processors, and train them how to make those, too.

And of course, Americans are not allowed to run distribution centers, so once your parts are made, it is in the hands of the Chinese to sell those, too. On top of that, Americans are not allowed to set up service centers, either. Since there is no real service industry, most Chinese buy cars with the understanding that they have to learn how to fix them too – if they can get the parts. Of course, all that assumes that the Chinese 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 more bicycles in Shanghai than automobiles.

That’s how it works now. Under the new agreement, it’s completely different. Tariffs on American cars fall by 75 percent, so we can compete in Shanghai. The requirement that we have to produce the cars in China is eliminated. So is the requirement that we have to transfer our own technology. What’s more, American manufacturers will now be free to ship parts made in America into China, to set up their own distribution centers, and to run their own service shops – which means, for the first time, Chinese who buy cars will actually be able to get them fixed by the manufacturer. On top of all that, China also agreed to let our car companies like GM and Ford set up financing operations in China itself, to help the Chinese buy our cars.

From our perspective, it means that we’re going to sell a lot more American-made and American-assembled cars in China, which means a lot more American jobs. In return, the Chinese end up with much better products at lower prices. Think about what this means for competition in China. It means that a lot of Chinese firms that can’t compete will go belly-up, but those that do survive – like Honda did in Japan – will become global players. Why is China willing to make this deal? After all, their automotive industry vehemently opposes it. Because it knows that if it is going to develop into a modern economy, its people must be mobile. They must be able to get to the jobs. They’re not going to get there by relying on old bicycles.

Take that example and multiply it out across all of our other industries – from manufacturing to high-tech to insurance to agriculture – and you begin to get an idea of how much prosperity this deal could bring to both the American and Chinese economies. You also realize it won't take long to see the balance on that trade deficit shift dramatically.

That is what America gets under the trade agreement we negotiated last fall. All we are required to do in return is to grant China permanent normal trade relations status, to bring China into the WTO. It's important to understand what that means: permanent NTR is not a favor to China. It is the same arrangement we have with the other 135 nations who are our partners in the WTO. It is the entry fee that nations pay to join the world trading system. It simply means that we will give you the same tariff schedule we apply to every other nation in the world, and you will give us yours.

Passing permanent NTR with China does not mean that Congress is permanently barred from ever revisiting the issue of Chinese trade. Congress always has the authority to visit our trading relationships with any nation, as well as any other part of our relationship with China, and that's the way it should be. What it will do is get us out of the cycle we are now in, where the future of Chinese trade comes up for a vote every single year in Congress. As a nation, it is in our interest to encourage American companies to help us build a more open, democratic China. It is difficult to build the long-term relationships that make those efforts possible if there is a new threat every single year that they will be disrupted.

It's also fair to ask: how do we know that China won't cheat? With any trade agreement we sign, there is always the possibility that there will be violations. Right now, if China violates our trade agreement, 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 on everything from intellectual property to dumping. Most importantly, as a member of the WTO, China must also agree to submit disputes to that body for adjudication. China could ignore these decisions by thwarting the collective will of the WTO's 135 members – an unwise course if it wants to reap the benefits of global trade. In the end, this agreement gives America much better protections and mechanisms to handle disputes, while making no new demands upon our markets.

If Congress votes yes on PNTR, we will get open markets and more American jobs. If Congress votes no, it would deny American firms the ability to enter the Chinese market under WTO rules, and risk losing the special import protections and vastly expanded trading rights that we negotiated. It might force American farmers and businesses to look on helplessly as European and Japanese competitors stake out privileged positions in one of the 21<sup>st</sup> Century's biggest markets.

The economic benefits of this deal to America are clear. But that is not the end of the argument. This agreement is just as vital to our national security interests as it is to our economic interests. As a nation, we have a tremendous stake in how China evolves. A large part of our future is tied to Asia. The stability of Asia – both economically and militarily – is tied directly to the stability of China, the largest nation in the world. As China develops, the light it shines or the shadow it casts will be felt very far from its own borders in the 21<sup>st</sup> Century.

Today, we have more questions than answers: will China become an open, democratic society that respects the human rights and freedoms of all its people – or will it continue to operate behind a great wall of secrecy, repression, and fear? Will it come to grips with the need for economic reform to ensure its own viability in this increasingly globalized world – or will it be a nation unable to deal with its own problems, and collapse from within? Will it develop in a way that pulls it into the international community and sees it play by international rules – or will it stay outside the system and be the world's next great threat to freedom and security? There is no magic solution to any one of these questions. But one thing we do know: bringing China into the WTO will help move it in the right direction on each of these issues.

To understand why, we need to see China clearly – its progress and its problems, its system and its strains, its policies and its perceptions of us, of itself, and the world.

In the last 20 years, China has made incredible progress in building a new economy, lifting more than 200 million people out of absolute poverty. But China's 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 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 20 percent of the non-farm economy. State-held stock still accounts for 62 percent of all the equity issued by companies listed on China's stock exchange. Much of China's landscape is still dominated by the unprofitable polluting state industries. China state banks are still making massive loans to struggling state firms, the sector of the economy least likely to succeed.

Last year, I met with Premier Zhu. I know that he is committed to making far-reaching changes. They also know that in the short run, reform will cause more unemployment, and more unrest. Last year alone, the State Economic and Trade Commission ordered the closing of 25,000 small coal mines. That came on top of a government reorganization that cut the formal employment in the central government in half. While they cut the government, so far they have been unwilling to open China's political system because they see that as contributing to instability when, in fact, giving people a say in their decisions actually provides a peaceful outlet for venting frustration.

China's biggest challenge through all this will be to maintain stability and growth at home by meeting, not stifling, the growing demands of its people for openness and accountability. It is easy for us to say; for them, it is a daunting task.

What does this mean for us? As the President has said, 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 challenge that a strong China could present to the United States in the future, let us not forget the risk of a weak China, beset by internal conflicts, social dislocation and criminal activity, becoming a vast zone of instability in Asia.

The solutions fundamentally lie in the choices China makes. We have an interest in seeking to make a difference and in not pretending that the outcome is foreordained. China's entry into the WTO will help meet these challenges in three fundamental ways.

First,

To understand why, we should not look at China through rose-colored glasses, nor should we look through a glass darkly to see an image that distorts China's strength and ignores its complexities. We need to step back and see China clearly – its progress and its problems, its system and its strains, its policies and perceptions of us, of itself, and the world.

As a nation, we have a tremendous interest in how China evolves.



1/29/00 9:00 a.m.

Orzulak

**NATIONAL SECURITY ADVISOR SAMUEL R. BERGER  
REMARKS TO  
THE WILSON CENTER  
ON CHINA  
WASHINGTON, D.C.  
FEBRUARY 4, 2000**

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

That's a little bit how it feels to address the Wilson Center. For more than 50 years, this body has helped America think through the most challenging foreign policy issues of the day. On behalf of the President, I want to thank you for all you have done to help our Administration and the American people build a safer, better, more prosperous world.

Last week, we heard the President give a powerful summary of America's place in the world at the beginning of a new century. It's not hard to feel optimistic about the future. America today is enjoying the longest economic expansion in its history. Our military strength is unchallenged. Our alliances are strong. Our values are ascendant. Eighty years after Woodrow Wilson hoped that American leadership would make the world safe for democracy – today, for the first time in history, more than half the world's population live under governments of their own choosing.

But as the President said last Thursday, this is not a world without dangers to us. There is a chance that our security could be threatened by regional conflicts that pose the risk of a wider war, especially those rooted in ethnic and religious tensions. There is a danger that the inexorable march of technology will give terrorists and hostile nations the means to undermine our defenses, and force us to live again in fear. There is a chance that the stability of the 21<sup>st</sup> Century will 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 in their effort to emerge as stable, prosperous, democratic partners of the United States.

Today, I want to talk about China. For three decades, America has labored to help shape a China with an economy that is open to American products, farmers, and businesses. A China whose people have access to ideas and information. A China that upholds the rule of law and plays by global rules on everything from nuclear non-proliferation to human rights to trade. This year, we have the best opportunity we have ever had to begin to turn those goals into a reality. The issue, of course, is China's entry into the World Trade Organization.

Last fall, we negotiated an agreement to bring China into the WTO in a way that will advance all of those goals, while benefiting America in unprecedented new ways. But to realize those benefits, we have a decision to make: will Congress support granting China permanent Normal

Trade Relations status, which is our part of the deal, and the same exact carrot we have given to every one of our partners in the WTO? Or will Congress turn its back on the most sweeping democratic changes China has agreed to make in its history, settle for the status quo, and risk even more lost ground on the issues we care about?

We know that this is going to be a difficult debate, because there are a lot of honest people on both sides of the aisle who have real questions about China. But let me take a few minutes today to talk about why supporting this agreement – and voting yes on permanent NTR for China -- is the right thing to do.

Every trade debate begins with the simple question: will our nation be better off with this agreement, or without it? 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 is an absolute home run for America.

For more than a decade, critics have complained that China has had significant access to our markets, while their markets have been virtually closed to American products and services. And that has been largely true. The incredible thing about this agreement is that China makes huge new concessions to open its market to America – but America doesn't have to give China any new access to our markets. It's the trade equivalent of a one-way street. China values the promise of WTO membership so highly that it is willing to open a gaping hole in its markets to us. But we promise only to maintain the market access policies we already apply to China. So rejecting this agreement will in no way affect China's access to our markets. It will only continue to limit our access to theirs, and continue to ensure that our trade deficit remains high.

On the numbers alone, this agreement will dramatically expand our access to a market of more than 1.3 billion people. China's economy is already among the world's largest. Over the past 20 years, it has expanded at an extraordinary rate. During this period, U.S. exports to China have grown from negligible levels to more than \$14 billion in goods and services each year and now supports 400,000 American jobs. These figures will grow substantially with the new access that the WTO agreement creates.

On key agricultural products, China's tariffs will drop by 60 percent by January 2004 – and dramatically expand export opportunities for our farmers who grow bulk commodities like wheat, rice, and corn. Tariffs on industrial products will drop by nearly two-thirds, from 25 percent in 1997 to an average of 9.4 percent by 2005. Both our manufacturers and our farmers will gain the right to trade and distribute freely inside China, without going through state trading companies or middle men. And on products such as computers, semiconductors, and all Internet-related equipment, tariffs will shrink to zero by the year 2005. Our information technology firms lead the world and stand to do very well in China's huge, expanding, and information-hungry market.

The agreement also opens China's market for services, including distribution, insurance, telecommunications, banking, professional and environmental services. Here, too, American firms are world leaders and will find tremendous opportunities in China.

And it directly responds to concerns raised by Republicans and Democrats alike about unfair trade practices in China. The agreement provides safeguards to prevent unfair competition that

would harm American workers. It includes a “product-specific” safeguard that allows us to take trade measures focused on China in case of an import surge that threatens a particular U.S. industry. It provides strong protections against “dumping” the sale of goods in our market below the producer’s costs. And under the agreement, we will have, for the first time, effective means to combat Chinese practices – such as forced technology transfers and local content requirements – that drain jobs, investment and technology from the United States. Most importantly, our businesses will be able to export to China from home, rather than being forced to set up factories in China to sell products there.

That is what this agreement means in principle. But just think about what it means in practice.

Look at the auto industry. Right now, a car made in Dearborn faces an 80 to 100 percent tariff before it can be sold in Shanghai —which prices us right out of the market. So if you want to sell cars in China, you actually have to go to China. And what you do is, you find a Chinese middleman, either a state-run or private-run firm – because American firms aren’t allowed to directly own anything in China – and you contract to have an equity stake in the company. But then, to sell your cars, the law says you have to teach the Chinese how to make them. So you have to transfer a huge amount of your technology to China, teach them how to use it, and then you leave it to them to make your cars -- which essentially means you are transferring both your product and your training to your eventual competitors. Of course, it’s also against the law to import American car parts, so you have to work with Chinese vendors to set up components processors, and train them how to make those, too.

And of course, Americans are not allowed to run distribution centers, so once your parts are made, it is in the hands of the Chinese to sell those, too. On top of that, Americans are not allowed to set up service centers, either. Since there is no real service industry, most Chinese buy cars with the understanding that they have to learn how to fix them too – if they can get the parts. Of course, all that assumes that the Chinese 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 more bicycles in Shanghai than automobiles.

That’s how it works now. Under the new agreement, it’s completely different. Tariffs on American cars fall by 75 percent, so we can compete in Shanghai. The requirement that we have to produce the cars in China is eliminated. So is the requirement that we have to transfer our own technology. What’s more, American manufacturers will now be free to ship parts made in America into China, to set up their own distribution centers, and to run their own service shops – which means, for the first time, Chinese who buy cars will actually be able to get them fixed by the manufacturer. On top of all that, China also agreed to let our car companies like GM and Ford set up financing operations in China itself, to help the Chinese buy our cars.

From our perspective, it means that we’re going to sell a lot more American-made and American-assembled cars in China, which means a lot more American jobs. In return, the Chinese end up with much better products at lower prices. Think about what this means for competition in China. It means that a lot of Chinese firms that can’t compete will go belly-up, but those that do survive – like Honda did in Japan – will become global players. Why is China willing to make this deal? After all, their automotive industry vehemently opposes it. Because it knows that if it is going to develop into a modern economy, its people must be mobile. They must be able to get to the jobs. They’re not going to get there by relying on old bicycles.

Take that example and multiply it out across all of our other industries – from manufacturing to high-tech to insurance to agriculture – and you begin to get an idea of how much prosperity this deal could bring to both the American and Chinese economies. You also realize it won't take long to see the balance on that trade deficit shift dramatically.

That is what America gets under the trade agreement we negotiated last fall. All we are required to do in return is to grant China permanent normal trade relations status, to bring China into the WTO. It's important to understand what that means: permanent NTR is not a favor to China. It is the same arrangement we have with the other 135 nations who are our partners in the WTO. It is the entry fee that nations pay to join the world trading system. It simply means that we will give you the same tariff schedule we apply to every other nation in the world, and you will give us yours.

Passing permanent NTR with China does not mean that Congress is permanently barred from ever revisiting the issue of Chinese trade. Congress always has the authority to visit our trading relationships with any nation, as well as any other part of our relationship with China, and that's the way it should be. What it will do is get us out of the cycle we are now in, where the future of Chinese trade comes up for a vote every single year in Congress. As a nation, it is in our interest to encourage American companies to help us build a more open, democratic China. It is difficult to build the long-term relationships that make those efforts possible if there is a new threat every single year that they will be disrupted.

It's also fair to ask: how do we know that China won't cheat? With any trade agreement we sign, there is always the possibility that there will be violations. Right now, if China violates our trade agreement, 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 on everything from intellectual property to dumping. Most importantly, as a member of the WTO, China must also agree to submit disputes to that body for adjudication. China could ignore these decisions by thwarting the collective will of the WTO's 135 members – an unwise course if it wants to reap the benefits of global trade. In the end, this agreement gives America much better protections and mechanisms to handle disputes, while making no new demands upon our markets.

If Congress votes yes on PNTR, we will get open markets and more American jobs. If Congress votes no, it would deny American firms the ability to enter the Chinese market under WTO rules, and risk losing the special import protections and vastly expanded trading rights that we negotiated. It might force American farmers and businesses to look on helplessly as European and Japanese competitors stake out privileged positions in one of the 21<sup>st</sup> Century's biggest markets.

The economic benefits of this deal to America are clear. But that is not the end of the argument. This agreement is just as vital to our national security interests as it is to our economic interests. As a nation, we have a tremendous stake in how China evolves. A large part of our future is tied to Asia. The stability of Asia – both economically and militarily – is tied directly to the stability of China, the largest nation in the world. As China develops, the light it shines or the shadow it casts will be felt very far from its own borders in the 21<sup>st</sup> Century.

Today, we have more questions than answers: will China become an open, democratic society that respects the human rights and freedoms of all its people – or will it continue to operate behind a great wall of secrecy, repression, and fear? Will it come to grips with the need for economic reform to ensure its own viability in this increasingly globalized world – or will it be a nation unable to deal with its own problems, and collapse from within? Will it develop in a way that pulls it into the international community and sees it play by international rules – or will it stay outside the system and be the world's next great threat to freedom and security? There is no magic solution to any one of these questions. But one thing we do know: bringing China into the WTO will help move it in the right direction on each of these issues.

To understand why, we need to see China clearly – its progress and its problems, its system and its strains, its policies and its perceptions of us, of itself, and the world.

In the last 20 years, China has made incredible progress in building a new economy, lifting more than 200 million people out of absolute poverty. But China's 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 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 20 percent of the non-farm economy. State-held stock still accounts for 62 percent of all the equity issued by companies listed on China's stock exchange. Much of China's landscape is still dominated by the unprofitable polluting state industries. China state banks are still making massive loans to struggling state firms, the sector of the economy least likely to succeed.

Last year, I met with Premier Zhu. I know that he is committed to making far-reaching changes. They also know that in the short run, reform will cause more unemployment, and more unrest. Last year alone, the State Economic and Trade Commission ordered the closing of 25,000 small coal mines. That came on top of a government reorganization that cut the formal employment in the central government in half. While they cut the government, so far they have been unwilling to open China's political system because they see that as contributing to instability when, in fact, giving people a say in their decisions actually provides a peaceful outlet for venting frustration.

China's biggest challenge through all this will be to maintain stability and growth at home by meeting, not stifling, the growing demands of its people for openness and accountability. It is easy for us to say, for them, it is a daunting task.

What does this mean for us? As the President has said, 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 challenge that a strong China could present to the United States in the future, let us not forget the risk of a weak China, beset by internal conflicts, social dislocation and criminal activity, becoming a vast zone of instability in Asia.

The solutions fundamentally lie in the choices China makes. We have an interest in seeking to make a difference and in not pretending that the outcome is foreordained. China's entry into the WTO will help meet these challenges in three fundamental ways.

First,

To understand why, we should not look at China through rose-colored glasses, nor should we look through a glass darkly to see an image that distorts China's strength and ignores its complexities. We need to step back and see China clearly – its progress and its problems, its system and its strains, its policies and perceptions of us, of itself, and the world.

As a nation, we have a tremendous interest in how China evolves.



## THE WHITE HOUSE

Office of the Press Secretary  
(Hong Kong Special Administrative Region)

For Immediate Release

July 3, 1998

REMARKS BY THE PRESIDENT  
TO THE COMMUNITY AND BUSINESS LEADERS OF HONG KONG

Hong Kong Convention Center  
Hong Kong Special Administrative Region

10:42 A.M. (L)

THE PRESIDENT: Thank you very much. To Jeff Muir, and Victor Fong, thank you both for your fine remarks and for hosting me. I thank all the members of the Hong Kong Trade Development Council and the American Chamber of Commerce for making this forum available, and so many of you for coming out on this morning for what will be my last public speech, except for my press conference, which the members of the press won't permit to become a speech, before I go home.

It has been a remarkable trip for my wife and family and for the Senate delegation and members of our Cabinet and White House. And we are pleased to be ending it here.

I want to say a special word of appreciation to Secretary Albright and Secretary Daley, to Senator Rockefeller, Senator Baucus, Senator Akaka, Congressman Dingell, Congressman Hamilton, Congressman Markey, and the other members of the administration and citizens who have accompanied me on this very long and sometimes exhausting, but ultimately I believe very productive trip for the people of the United States and the people of China.

I'm glad to be back in Hong Kong. As I told Chief Executive Tung and the members of the dinner party last night, I actually -- I may be the first sitting President to come to Hong Kong, but this is my fourth trip here. I was able to come three times before -- once with Hillary -- in the period we now refer to as back when we had a life. (Laughter.) Before I became President. And I look forward to coming again in the future.

I think it's quite appropriate for our trip to end in Hong Kong, because, for us Americans, Hong Kong is China's window on the world. I have seen remarkable changes taking place in China, and since the possibilities of its future -- much of which clearly is and for some time has been visible here in Hong Kong, with its free and open markets and its vibrant entrepreneurial atmosphere.

Devoid of natural resources Hong Kong always has had to fall back on the most important resource of all -- its people. The entrepreneurs, the artists, the visionaries, the hardworking, everyday people have accomplished things that have made the whole world marvel. Hong Kong people have dreamed, designed and built some of the world's tallest buildings and longest bridges. When Hong Kong ran out of land, the

people simply went to the sea and got more. To the average person from a land-locked place, that seems quite stunning.

I thank you for giving me a chance to come here today to talk about the relationship between the United States and all of Asia. I have had a great deal of time to emphasize the importance of our future ties with China and I would like to reiterate them today and mention some of the points that the two previous speakers made. But I would like to put it in the context of the entire region. And, after all, it is the entire region that has been critical to the success of Hong Kong.

We have a fundamental interest in promoting stability and prosperity in Asia. Our future is tied to Asia's. A large and growing percentage of our exports, our imports and our investments involve Asian nations. As President, besides this trip to China, I have been to Japan, Korea, Indonesia, the Philippines, Australia and Thailand, with more to come. I have worked with the region's leaders on economic, political, and security issues. The recent events in South Asia, in Indonesia, in financial markets all across the region remind the American people just how very closely our future is tied to Asia's.

Over the course of two centuries, the United States and Asian nations have built a vast, rich, complex, dynamic relationship -- forged in the beginning by trade, strained on occasion by misunderstanding, tempered by three wars in living memory, enriched by the free flow of ideas, ideals, and culture. Now, clearly, at the dawn of the 21st century, our futures are inextricably bound together -- bound by a mutual interest in seeking to free future generations from the specter of war. As I said, America can remember three wars we have fought in Asia. We must make it our mission to avoid another.

The cornerstone of our security in Asia remains our relationship of longstanding with five key democratic allies -- Japan, South Korea, Australia, Thailand, the Philippines. Our military presence in Asia is essential to that stability, in no small measure because everyone knows we have no territorial ambitions of any kind.

Nowhere is this more evident than on the Korean Peninsula, where still, every day, after 40 years, 40,000 American troops patrol a border that has known war and could know war again. We clearly have an interest in trying to get a peace on the Korean Peninsula. We will continue to work with China to advance our efforts in the four-party talks, to encourage direct and open dialogue between North and South Korea, to faithfully implement the agreement with North Korea to end their nuclear weapons programs and to insist that North Korea do the same.

I am encouraged by the openness and the energy of South Korea's new leader, Kim Dae Jung. Last month, in an address to our Congress, he said, "It is easier to get a passerby to take off his coat with sunshine than with a strong wind."

Of course, our security is also enormously enhanced by a positive partnership with a prosperous, stable, increasingly open China, working with us, as we are, on the challenges of South Asian nuclear issues, the financial crisis in the region, the Korean peace effort, and others.

Our oldest ties to Asia are those of trade and commerce, and now they've evolved into some of our strongest. The fur pelts and cottons our first traders bought here more than 200 years ago have given way to software and medical instruments. Hong Kong is now America's top consumer for cell phones. Today, roughly a third of our exports and 4 million jobs depend on our trade to Asia. As was earlier said, over 1,000 American companies have operations in Hong Kong alone. And as

we've seen in recent months, when markets tremble in Tokyo or Hong Kong they cause tremors around the world.

That is why I have not only sought to ease the Asian economic difficulties, but to institutionalize a regional economic partnership through the Asian Pacific Economic Council leaders meetings that we've started in Seattle, Washington in 1993, and which in every year since has advanced the cause of economic integration and growth in the region. That is why I'm also working to broaden and deepen our economic partnership with China and China's integration into the world economic framework.

It clearly is evident to anyone who knows about our relationship that the United States supports China's economic growth through trade. We, after all, purchase 30 percent of the exports of China -- far more than any other country in the world, far more than our percentage of the world's GDP.

We very much want China to be a member of the World Trade Organization. We understand the enormous challenges that the Chinese government faces in privatizing the state industries and doing so at a rate and in a way which will permit people who lose their jobs in the state industries to be reintegrated into a changing economy and have jobs and be able to education their children, find a place to live and succeed in a stable society.

So the real question with this WTO accession is not whether the United States wants China in the WTO -- of course, we do. And the real question, in fairness to China, is not whether China is willing to be a responsible international partner in the international financial system. I believe they are. The question is, how do you resolve the tension between the openness requirements for investment and for trade through market access of the WTO with the strains that are going to be imposed on China anyway as it undertakes to speed up the economic transition and the change of employment base within its own country.

We are trying to work these things out. We believe that there must be an end agreement that contains strong terms that are commercially reasonable. We understand that China has to have some transitional consideration because of the challenges at home. I think we'll work this out. But I want you to understand that we in the United States very much want China to be a member of the WTO. We would like it to happen sooner, rather than later, but we understand that we have not only American but global interests to consider in making sure that when the whole process is over that the terms are fair and open and further the objectives of more open trade and investment across the world.

I also would say in that connection I am strongly supporting the extension of normal trading status, or MFN to China. I was encouraged by the vote in the House Ways and Means Committee shortly before we left. I hope we will be successful there. I think anything any of you can do to support the integrity of the existing obligations that all of us have including, and especially in the area of intellectual property, will be very helpful in that regard in helping us to move forward.

In addition to trade and security ties, the United States and Asia are bound by family ties, perhaps our most vital ones. Seven million Americans today trace their roots to Asia, and the percentage of our citizens who are Asian Americans is growing quite rapidly. These roots are roots they are eager to renew or rebuild or to keep. Just last year 3.4 million Americans traveled to Asia; 7.8 million Asian traveled to the United States. Thousands of young people are crossing the Pacific to study, and in so doing, building friendships that will form the foundations of cooperation and peace for the 21st century.

All across the region we see evidence that the values of freedom and democracy are also burning in the hearts of the people in the East as well as the West. From Japan to the Philippines, South Korea to Mongolia, democracy has found a permanent home in Asia.

As the world becomes smaller, the ties between Asia and the United States -- the political ties, the family ties, the trade ties, the security ties -- they will only become stronger. Consider this one little statistic: In 1975 there were 33 million minutes of telephone traffic between the U.S. and Asia; in 1996 there were 4.2 billion minutes of such traffic, a 127-fold increase. That doesn't count the Internet growth that is about to occur that will be truly staggering.

Now, the result of all this is that you and I in our time have been given a remarkable opportunity to expand and share the storehouse of human knowledge, to share the building of wealth, to share the fights against disease and poverty, to share efforts to protect the environment and bridge age-old gaps of history and culture that have caused too much friction and misunderstanding.

This may be the greatest moment of actual possibility in human history. At the same time, the greater openness, the pace of change, the nature of the global economy, all these things have brought with them disruption. They create the risk of greater gaps between rich and poor, between those equipped for the Information Age and those who aren't. It means that problems, whether they are economic problems or environmental problems, that begin in one country can quickly spread beyond that country's borders. It means that we're all more vulnerable in a more open atmosphere to security threats that cross national borders, to terrorism, to drug smuggling, to organized crime, to people who would use weapons of mass destruction.

Now, how are we going to deepen this relationship between the U.S. and Asia, since all of us recognize that it is in our interest and it will further our values? I believe there are three basic lessons that we can learn from the immediate past that should guide our path to the future.

First, building economies and people, not weapons of mass destruction, is every nation's best path to greatness. The vast majority of nations are moving away from, not toward, nuclear weapons, and away from the notion that their influence in the future will be defined by the size of their military rather than the size of their GDP and the percentage of their citizens who know a great deal about the world.

India and Pakistan's recent nuclear test, therefore, buck the tide of history. This is all the more regrettable because of the enormous potential of both countries. The United States has been deeply enriched by citizens from both India and Pakistan who have done so very well in America. They and their relatives could be doing very well at home, and therefore, could be advancing their nation's cause around the world. Both these countries could achieve real, different, fundamental greatness in the 21st century, but it will never happen if they divert precious resources from their people to develop nuclear and huge military arsenals.

We have worked hard with China and other leading nations to forge an international consensus to prevent an intensifying arms race on the Indian subcontinent. We don't seek to isolate India and Pakistan, but we do seek to divert them from a self-defeating dangerous and costly course. We encourage both nations to stop testing, to sign the Comprehensive Test Ban Treaty, to settle their differences through

peaceful dialogue.

The second lesson that we should take into the future is that nations will only enjoy true and lasting prosperity when governments are open, honest, and fair in their practices, and when they regulate and supervise financial markets rather than direct them.

Too many booming economies, too many new skyscrapers now vacant and in default were built on shaky foundations of cronyism, corruption, and overextended credit, undermining the confidence of investors with sudden, swift, and severe consequences. The financial crisis, as all of you know far better than I, has touched nearly all the nations and households of Asia. Restoring economic stability and growth will not be easy. The steps required will be politically unpopular and will take courage. But the United States will do all we can to help any Asian government willing to work itself back to financial health. We have a big interest in the restoration of growth, starting the flows of investment back into Asia.

There is a very limited time period in which we can absorb all the exports to try to do our part to keep the Asian economy going. And while we may enjoy a brief period of surging extra investment, over the long run stable growth everywhere in the world is the best prescription for stable growth in America.

We are seeing some positive steps. Yesterday Japan announced the details of its new and potentially quite significant banking reform proposals. We welcome them. Thailand and Korea are taking decisive action to implement the IMF-supported economic reform programs of their countries. Indonesia has a fresh opportunity to deepen democratic roots and to address the economic challenges before it. Thanks to the leadership of President Jiang and Premier Zhu, China has followed a disciplined, wise policy of resisting competitive devaluations that could threaten the Chinese economy, the region's, and the world's.

Even as your own economy, so closely tied to those of Asia, inevitably feels the impact of these times, Hong Kong continues to serve as a force for stability. With strong policies to address the crisis, a healthy respect for the rule of law, a strong system of financial regulation and supervision, a commitment to working with all nations, Hong Kong can help to lead Asia out of turbulent times as it contributes to China's astonishing transformation by providing investment capital and expertise in privatizing state enterprises and sharing legal and regulatory experience.

The final lesson I believe is this: Political freedom, respect for human right and support for representative governments are both morally right and ultimately the best guarantors of stability in the world of the 21st century. This spring the whole world looked on with deep interest as courageous citizens in Indonesia raised their voices in protest against corruption and government practices that have brought their nation's economy to its knees. They demonstrated for change, for the right to elect leaders fully accountable to them. And in just two weeks the universal longing for democratic, responsive, accountable government succeeded in altering their political future.

America will stand by the people of Indonesia and others as they strive to become part of the rising tide of freedom around the world. Some worry that widespread political participation and loud voices of dissent can pull a nation apart. Some nations have a right to worry about instability because of the pain of their own past. But nonetheless, I fundamentally disagree, especially given the dynamics of the 21st century global society.

Why? Democracy is rooted in the propositions that all people are entitled to equal treatment and an equal voice in choosing their leaders, and that no individual or group is so wise or so all knowing to make all the decisions that involve unfettered power over other people. The Information Age has brought us yet another argument for democracy. It has given us a global economy that is based on, more than anything else, ideas. A torrent of new ideas are generating untold growth and opportunity, not only for individuals and firms, but for nations. As I saw again in Shanghai when I met with a dozen incredibly impressive Chinese entrepreneurs, ideas are creating wealth in this economy.

Now, it seems to me, therefore, inevitable that societies with the freest flow of ideas are most likely to be both successful and stable in the new century. When difficulties come, as they do to every country and in all ages -- there is never a time that is free of difficulties -- it seems to me that open debate and unconventional views are most likely to help countries most quickly overcome the difficulties of unforeseen developments.

Let me ask you this: A year ago, when you celebrated the turnover from Great Britain to China of Hong Kong, what was everybody buzzing about after the speeches were over? Will this really work? Will this two-system thing work? Will we be able to keep elections? Will this work? How many people were off in a corner saying, you know, this is a pretty tough time to be doing this, because a year from now the whole Asian economy is going to be in collapse, and how in the world will we deal with this? When you cannot foresee the future, and when problems coming on you have to bring forth totally new thinking, the more open the environment, the quicker countries will respond. I believe this is profoundly important.

I also believe that by providing a constructive outlet for the discontent that will always exist in every society -- because there is no perfect place, and because people have different views and experience reality differently -- and by finding a way to give everybody some sense of empowerment and role in a society, that freedom breeds the responsibility without which the open, highly changing societies of the 21st century simply cannot succeed.

For all these reasons, I think the forces of history will move all visionary people, including Asians, with their legendary assets of hard work, intelligence, and education, toward freer, more democratic societies and ways of ordering their affairs.

For me, these lessons we must carry forward into the new century, and in this time of transition and change, as we deepen America's partnership with Asia. Success will come to those who invest in the positive potential of their people, not weapons to destroy others. Open governments and the rule of law are essential to lasting prosperity. Freedom and democracy are the birthrights of all people and the best guarantors of national stability and progress.

Now, as I said, a little over a year ago, no one could have predicted what you would have to endure today in the form of this crisis. But I am confident Hong Kong will get through this and will help to lead the region out of it, because of the lessons that I have just mentioned, and because they have been a part of the fabric of your life here for a very long time.

For years, Hong Kong people have enjoyed the right to organize public demonstrations, due process under law, 43 newspapers and 700 periodicals, giving life to the principle of government accountability, debate, free and open. All this must continue. The world was impressed by the record turnout for your May elections. The results were a

mandate for more democracy, not less, and faster, not slower, strides toward political freedom. I look forward to the day when all of the people of Hong Kong realize the rights and responsibilities of full democracy.

I think we should all pledge, each in our own way, to build that kind of future -- a future where we build people up, not tear our neighbors down; a future where we order our affairs in a legal, predictable, open way; a future where we try to tap the potential and recognize the authority of each individual.

I'm told that this magnificent convention center was built in the shape of a soaring bird on a patch of land reclaimed from the sea. It's an inspiring symbol of the possibilities of Hong Kong, of all of Asia, and of our relationship with Asia. Just a couple of days ago, Hong Kong celebrated its first anniversary of reversion to China. I am going home for America's 222nd anniversary tomorrow.

May the future of this special place -- of China, of the relationship between the United States and China and Asia, soar like the bird that gave life to this building.

Thank you very much. (Applause.)

END

11:10 A.M. (L)

## THE WHITE HOUSE

## Office of the Press Secretary

For Immediate Release

January 10, 2000

REMARKS BY THE PRESIDENT  
ON ADMINISTRATION EFFORTS TO GRANT CHINA  
PERMANENT TRADE RELATIONS STATUS

The Roosevelt Room

12:45 P.M. EST

THE PRESIDENT: Good afternoon. This year we face major challenges and opportunities in our relationship with China -- in foreign and security policy, economic policy and trade. All those issues come together in one opportunity for the American people, what we stand to gain when China enters the World Trade Organization.

But to lock in our benefits, we first must grant China permanent normal trade relations status. To get this done, I am directing John Podesta, my Chief of Staff; my international economic Cabinet members, my Policy Council coordinators, to launch an all-out effort. Each member of this team has a distinctive role to play. I'm asking them to do everything they can to accomplish the task.

To ensure that we have as strong and responsive an effort as possible in both parties in Congress, I'm asking Secretary of Commerce Bill Daley, and my Deputy Chief of Staff, Steve Ricchetti, to lead our congressional effort.

This agreement is a good deal for America. Our products will gain better access to China's market in every sector from agriculture to telecommunications to automobiles. But China gains no new market access to the United States -- nothing beyond what it already has. In fact, we'll gain tough new safeguards against surges of imports, and maintain the strongest possible rules against dumping products that have hurt Americans in the past.

China's tariffs on United States goods, on the other hand, will fall by half or more over the next five years. And by joining the WTO, China agrees to play by the same trade rules that we do.

We continue to have serious disagreements with China on human rights, on proliferation and other issues. We'll continue to press our views and protect our interests. This deal will not change China, or our relationship with China, overnight, but it is clearly a step in the right direction, and it is clearly in the short- and long-term best economic interests of the American working people.

It encourages China also to take further steps in the direction of both economic reform and respect for the rule of law. We want to see a China that is moving toward democracy at home and stability around the world. This agreement gives China's people access to goods and services, to ideas and innovations, that will help to promote those goals. It also gives China access to the World Trade Organization membership, and that will help to promote those goals.

Bringing China into the WTO is a win-win decision. It will

protect our prosperity, and it will promote the right kind of change in China. It is good for our farmers, for our manufacturers, and for our investors. Encouraging China to play by international rules, I say again, is an important step toward a safer, saner world.

I will be working hard over the coming weeks and over the coming months to make sure we do not let this opportunity slip away. I want to thank Secretary Daley and Mr. Ricchetti for agreeing to take on this important task. And we will do everything we can to succeed. Thank you.

Q What are the chances?

THE PRESIDENT: Well, I think they're quite good if we can get a vote early in the year. I think this is something that is in the national interest. I have made it clear to the leaders of Congress that I strongly support it and that I think it should be scheduled for a vote at the earliest possible time. And if we do that, I think we've got an excellent chance to pass it.

Q Mr. President, do you think that Congressman Burton is improperly interfering in the Elian Gonzalez case by issuing that subpoena? And are you troubled that Vice President Gore also thinks that the INS is not competent to make the decision and that it ought to be made by a judge in a court?

THE PRESIDENT: Well, I believe that the INS made the decision it was charged to make according to the rules and laws that govern the INS. And if anyone wants to challenge that, the appropriate thing to do is to challenge it in a legal way. I don't have any comment about what Mr. Burton does or any judgment about it. I mean, it's always interesting.

Q What about the Vice President?

THE PRESIDENT: Well, anybody is free to express their opinion about this and whether they think they did right or wrong. What I have successfully done, I think, is to make sure we got through the decision without it becoming overly politicized. We allowed the INS to review the facts, to interview the relevant parties, and to make a decision based on the law and regulations governing the INS. I think they did that to the best of their ability.

And as I said, if this were an American case, it would be handled in a family court, according to the best interests of the child. I think the INS tried to do what was right by the child, and I think that they did the best they could with a difficult and controversial situation. So I want to stand by them. And if anyone disagrees with them and they have some legal recourse, they ought to pursue the legal recourse. But, again, I -- and, of course, they can say they don't agree, but I think they did the best they could on the facts.

Q Mr. President, how far do you think that they got in Shepherdstown, and when do you expect the two sides to get back together again?

THE PRESIDENT: Oh, I think they'll be back here pretty soon. We're just trying to work out the precise arrangements. And, you know, these people really talked about the substance of their differences for the first time. They were very open, they were very candid, they covered all the issues. And I think that they broke a lot of ground. But it's tough. I told you it was tough in the beginning. I still think we can get there, but they're going to have to come back here determined to do so, and I believe they will.

Q You're not disappointed, sir, in the results?

THE PRESIDENT: Oh, no. I never expected in the first go-round that we could have a concluding agreement. It's just -- this is too tough. These are very difficult issues. But they're not -- the good news is they're not overwhelmingly complicated. That is, sometimes you have in these peace negotiations issues that are both politically difficult and extremely complicated.

I think there is some complexity here, but it's all quite manageable. So I think that they know where they are now, they've talked through, they have a feeling for each other, they've dealt with all these issues. We have a working -- a document, if you will, on which we can work through the differences. And so I feel pretty good about it.

I think our United States team did a good job. I'm very proud of Secretary Albright and Mr. Berger and all the rest of them. They did a good job. And I think the people who came from Israel and from Syria really are trying to make a difference. So if they want to do it bad enough and they're willing to sort of take a chance on a totally different future, they can get there. And I certainly hope they will and I'm still quite hopeful.

Q You said you were hopeful with the Palestinian talks?

THE PRESIDENT: Oh, very, yes.

Q For next month?

THE PRESIDENT: Yes. I'm quite hopeful there, too. Mr. Arafat is coming here in a few days and I'm quite hopeful.

END

12:55 P.M. EST