Case Number: 2010-1024-F

FOIA MARKER

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Folder Title:				
China (April 1999, Zhu Bilateral) [2]				
Staff Office-Individual:				
National Economic Council-Lee, Malcolm				
Original OA/ID Number:				
CF 1176				
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23	5	5	3	V

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. draft	Memorandum for Gene Sperling and Lael Brainard from Robert Westcott. Subject: Most Important Issues. (2 pages)	04/07/1999	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1176

FOLDER TITLE:
China (April 1999, Zhu Bilateral) [2]

2010-1024-F
vz1823

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]

China - CEO calls

Boeing - Signature of deal

tech transfer - [illegible]

Kodak - 1 reduce tariff for auto films

but not too low bec JV in China

* film tariff

Ford + Low tariffs to 25% by 2005

quota elim by 2005

distrib: auto res[illegible] +

wholesaling

Auto Finance (available, set 2005

for [illegible])

AIG

- wanted geographic restrictions eliminated - all by 2005
- Set cities in 1st phase up front (BJ, ~~[illegible]~~ Shanghai, Tianjin, Chongqing, Suzhou, [illegible]) Shenzhen
- Ability to branch across geographic
- ~~[illegible]~~ Master Policy - Large scale commercial risks - upon accession
- ~~[illegible]~~ Maritime
- Group Persons - starting no later Jan 1 2005

[BACK]

UPS/Fedex

- Convenience
- wholly owned sub 2004
- majority owned 2001
- Chinese adopted industry definition

GM + ... Heathwest 482-2831

-> wanted differential between parts + ... autos

- ... 30% parts ...

Citigroup

- ... ...
-> wanted access ... local currency, China offered 7 yrs, we got to 5

question is how geographic

-> Now ... currency both the retail + corporate ... + ... issue is ... local

-> ... by 2002
-> ... by 2005 > no geographic before

... ... geographically ...
- Chinese say not fully, we want phase in

-

GE -> Distribution more client
set in 3 yrs
~~#3~~ Tangle

TRW -> ITA products
-> 0 format prod up front, due to 2003
-> cellular + mobile handsets |

* -

Withdrawal/Redaction Marker
Clinton Library

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SUNTUM_M @ A1
04/07/99 11:35:00 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:
Subject: 1999-4-7 remarks in foreign policy speech

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 7, 1999

REMARKS BY THE PRESIDENT
IN FOREIGN POLICY SPEECH

Mayflower Hotel
Washington. D.C.

10:33 A.M. EDT

THE PRESIDENT: Thank you, Richard. Max Kampelman, thank you for being with me today. And I thank the U.S. Institute for Peace for arranging this presentation on this, as I'm sure all of you know, relatively short notice.

I'd also like to acknowledge the presence here with me today of Secretary Albright and Ambassador Barshefsky, National Security Advisor Berger, and two important former members of my national security team, Tony Lake and Tara Sonenshine, who is a senior advisor here the to Institute for Peace.

I would like to begin just by thanking this body for what you do every day to help our administration and the Congress and the American people think through the most challenging foreign policy issues of our time. And I thank you in particular for your determination to reach out to a younger generation of Americans to talk to them about the importance of these issues and the world they will live in.

In February, I gave a speech in San Francisco about America's role in the century to come. We all know it's an extraordinary moment when there is no overriding threat to our security; when no great power need feel that any other is a military threat; when freedom is expanding and open markets and technology are raising living standards on every continent, bringing the world closer together in countless ways.

But I also argued that globalization is not an unmixed blessing. In fact, the benefits of globalization -- openness and opportunity -- depend on the very things globalization alone cannot guarantee -- peace, democracy, the stability of markets, social justice, the protection of health and the environment.

Globalization can bring repression and human rights violations and suffering into the open, but it cannot prevent them. It can promote integration among nations, but also lead to disintegration within them. It can bring prosperity on every continent, but still leave many, many people behind. It can give people the modern tools of the 21st century, but it cannot purge their hearts of the primitive hatreds that may lead to the misuse of those tools. Only national governments, working together, can reap the full promise and reduce the problems of the 21st century.

The United States, as the largest and strongest country in the world at this moment -- largest in economic terms and military terms -- has the unavoidable responsibility to lead in this increasingly interdependent world, to try to help meet the challenges of this new era.

Clearly, our first challenge is to build a more peaceful world, one that will apparently be dominated by ethnic and religious conflicts we once thought of primitive, but which Senator Moynihan, for example, has referred to now as post-modern. We know that we cannot stop all such conflicts. But when the harm is great and when our values and interests are at stake, and when we have the means to make a difference, we should try.

That is what we and our NATO allies are doing in Kosovo -- trying to end the horrible war there, trying to aid the struggling democracies of Southeastern Europe, all of whom are threatened by the violence, the hatred, the human exodus President Milosevic's brutal campaign has unleashed. We are determined to stay united and to persist until we prevail.

It is not enough now for Mr. Milosevic to say that his forces will cease fire in Kosovo, denied its freedom and devoid of its people. He must withdraw his forces, let the refugees return, permit the deployment of an international security force. Nothing less will bring peace with security to the people of Kosovo.

The second challenge I discussed in San Francisco in February is that of bringing our former adversaries, Russia and China, into the international system as open, prosperous and stable nations. Today, I want to speak especially about our relationship with China, one that is being tested and hotly debated today as China's Premier, Zhu Rongji, travels to Washington.

Of course, we all know that perceptions affect policies. And American perceptions about China have often changed in this century. In the early 1900s, most Americans saw China through the eyes of missionaries seeking open hearts, or traders seeking open markets. During World War II, China was our ally; during the Korean War, our adversary. During the Cold War, we debated whether China was a solid stone in the monolith of world communism, or a country with interests and traditions that could make it a counterweight to Soviet power.

More recently, many Americans have looked to China to see either the world's next great capitalist tiger and an enormous motherlode of economic opportunity for American companies and American workers, or the world's last great communist dragon and next great threat to freedom and security.

For a long time, it seems to me, we have argued about China with competing caricatures. Is this a country to be engaged, or isolated? Is this a country beyond our power to influence, or a country that is ours to gain and ours to lose? Now we hear that China is a country to be feared. A growing number of people say that it is the next great threat to our security and our well-being.

What about this argument? Well, those who say it point out, factually, that if China's economy continues to grow on its present trajectory, it will be the world's largest in the next century. They argue, correctly, that the Chinese government often defines its interests in ways sharply divergent from ours. They are concerned, rightly, by Chinese missiles aimed at Taiwan and at others. From this they conclude that China is, or will be, our enemy.

They claim it is building up its military machine for aggression, and using the profits of our trade to pay for it. They urge us, therefore, to contain China -- to deny it access to our markets, our technology, our investment, and to bolster the strength of our allies in Asia to counter the threat a strong China will pose in the 21st century.

What about that scenario? Clearly, if it chooses to do so, China could pursue such a course, pouring much more of its wealth into military might and into traditional great power geopolitics. Of course, this would rob it of much of its future prosperity, and it is far from inevitable that China will choose this path. Therefore, I would argue that we should not make it more likely that China will choose this path by acting as if that decision has already been made.

I say this over and over again, but when I see this China debate in America, with people talking about how we've got to contain China and they present a terrible threat to us in the future and its inevitable and how awful it is, I remind people who work with us that the same kind of debate is going on in China -- people saying the Americans do not want us to emerge, they do not want us to have our rightful position in the world, their whole strategy is designed to keep us down on the farm.

And we have to follow a different course. We cannot afford caricatures. I believe we have to work for the better future that we want, even as we remain prepared for any outcome. This approach will clearly put us at odds with those who believe America must always have a great enemy. How can you be the great force for good in the world and justify all the things you do if you don't have a great enemy.

I don't believe that. I believe we have to work for the best, but do it in a way that will never leave us unprepared in the event that our efforts do not succeed.

Among the first decisions I made in 1993 was to preserve the alliances that kept the peace during the Cold War. That meant in Asia, we kept 100,000 troops there, and maintained robust alliances with Japan, Korea, Thailand, Australia and the Philippines. We did this, and have done it, not to contain China or anyone else, but to give confidence to all that the potential threats to Asia's security will remain just that -- potential -- and that America remains committed to being involved with Asia and to Asia's stability.

We've maintain our strong, unofficial ties to a democratic Taiwan, while upholding our one-China policy. We've encouraged both sides to resolve their differences peacefully and to have increased contact. We've made clear that neither can count on our acceptance if it violates these principles.

We know that in the past decade China has increased its deployment of missiles near Taiwan. When China tested some of those missiles in 1996, tensions grew in the Taiwan Strait. We demonstrated then with the deployment of our carriers that America will act to prevent a miscalculation there. Our interests lie in peace and stability in Taiwan and in China, in the Strait and in the region, and in a peaceful resolution of the differences. We will do what is necessary to maintain our interest.

Now, we have known since the early 1980s that China has nuclear armed missiles capable of reaching the United States. Our defense posture has and will continue to take account of that reality. In part, because of our engagement, China has, at best, only marginally increased its deployed nuclear threat in the last 15 years. By signing the Comprehensive Test Ban Treaty, China has accepted constraints on its ability to modernize its arsenal at a time when the nuclear balance remains overwhelmingly in our favor. China has fewer than two dozen long-range nuclear weapons today; we have over 6,000.

We are determined to prevent the diversion of technology and sensitive information to China. The restrictions we place on our exports to China are tougher than those applied to any other major exporting country in the world.

When we first learned, in 1995, that a compromise had occurred at our weapons labs, our first priority was to find the leak, to stop it, and to prevent further damage. When the Energy Department and the FBI discovered wider vulnerabilities, we launched a comprehensive effort to address them. Last year, I issued a directive to dramatically strengthen security at the energy labs. We have increased the Department's counterintelligence budget by 15-fold since 1995.

But we need to be sure we're getting the job done. Last month, I asked the President's Foreign Intelligence Advisory Board, an independent, bipartisan body chaired by former Senator Warren Rudman, to review the security threat and the adequacy of the measures we have taken to address it. It is vital that we meet this challenge with firmness and openness, but without fear.

The issue is how to respond to this. I believe 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 see China clearly -- its progress and its problems, its system and its strains, its policies and its perceptions of us, of itself, of the world. Indeed, we should apply a bit of universal wisdom that China's late leader, Deng Xiaoping, used to preach, we should seek the truth from facts.

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 consider this: Its working age population is increasing by more than 10 million people, the equivalent of the state of Illinois, every year. Tens of millions of Chinese families are migrating from the countryside, where they see no future, to the city where only some find work. Due in part to the Asian economic crisis, China's economic growth is slowing just when it needs to be rising to create jobs for the unemployed and to 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. 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.

Now, I'm met with Premier Zhu before. I know, and I think all of you know, that he is committed to making necessary, far-reaching changes. He and President Ziang are working to reform banks and state enterprises and to fight corruption. Indeed, one of China's highest public security officials was arrested several weeks ago on corruption charges.

They also know that in the short run, reform will cause more unemployment, and that can cause unrest. But so far, they've been unwilling to open up 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 in the coming years 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 all this mean for us? Well, 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.

Despite Beijing's best efforts to rein in these problems, we have seen the first danger signs -- free-wheeling Chinese enterprises selling weapons abroad, the rise in China of organized crime, stirrings of ethnic tensions and rural unrest, the use of Chinese territory for heroin trafficking, and even piracy of ships at sea. In short, we're seeing in China the kinds of problems a society can face when it is moving away from the rule of fear, but is not yet firmly rooted in the rule of law.

The solutions fundamentally lie in the choices China makes. But I think we would all agree, we have an interest in seeking to make a difference and in not pretending that the outcome is foreordained. We can't do that simply by confronting China or trying to contain her. We can only deal with the challenge if we continue a policy of principled, purposeful engagement with China's leaders and China's people.

Our long-term strategy must be to encourage the right kind of development in China -- to help China grow at home into a strong, prosperous and open society, coming together, not falling apart; to integrate China into the institutions that promote global norms on proliferation, trade, the environment, and human rights. We must build on opportunities for cooperation with China where we agree, even as we strongly defend our interests and values where we disagree. That is the purpose of engagement. Not to insulate our relationship from the consequences of Chinese actions, but to use our relationship to influence China's actions in a way that advances our values and our interests.

That is what we have done for the last six years, with the following tangible results. In no small measure as a result of our engagement, China helped us to convince North Korea to freeze the production of plutonium, and, for now, to refrain from more new missile tests. It has been our partner in averting a nuclear confrontation in South Asia. Not long ago, China was selling dangerous weapons and technologies with impunity. Since the 1980s, it has joined the Nuclear Non-Proliferation Treaty, the Chemical Weapons Convention, the Biological Weapons Convention, and the Comprehensive Test Ban Treaty -- and accepted the safeguards, reporting requirements, and inspection systems that go with each.

We have also convinced China not to provide new assistance to Iran's nuclear program, to stop selling Iran anti-ship cruise missiles, and to halt assistance to unsafeguarded nuclear facilities in Pakistan. Now it's important that China join the Missile Technology Control Regime, a step President Jiang agreed to consider at least year's summit in Beijing.

We also have an interest in integrating China into the world trading system and in seeing it join the World Trade Organization on clearly acceptable, commercial terms. This is a goal America has been working toward in a bipartisan fashion for 13 years now. Getting this done and getting it done right is profoundly in our national interests. It is not a favor to China; it is the best way to level the playing field.

China already has broad access to our markets, as you can see from any perusal of recent trade figures. If China accepts the responsibilities that come with WTO membership, that will give us broad access to China's markets, while accelerating its internal reforms and propelling it toward acceptance of the rule of law.

The bottom line is this: If China is willing to play by the global rules of trade, it would be an inexplicable mistake for the United States to say no.

We have an interest as well in working with China to preserve the global environment. Toward the middle of the next century, China will surpass the United States as the world's largest emitter of greenhouse gases. At last year's summit in China, I made it clear there can be no meaningful solution to this problem unless China is a part of it. But I also emphasized, as I do over and over again -- with sometimes mixed effect -- that rapidly developing technologies now make it possible for China -- indeed, for India, for any other developing economy -- to be environmentally responsible without sacrificing economic growth.

That challenge is at the top of Vice President Gore's agenda on the forum on environment and development he shares with Premier Zhu. It will be meeting this week.

We have been encouraging the development of clean natural gas in China and cleaner technologies for burning coal. We've been working with China on a study of emissions trading, a tool that has cut pollution at low cost in the United States and which could do the same for China. In the Information Age, China need not, indeed, China will not be able, to grow its economy by clinging to Industrial Age energy practices.

Finally, let me say we have an interest in encouraging China to respect the human rights of its people and to give them a chance to shape the political destiny of their country. This is an interest that cuts to the heart of our concerns about China's future.

Because wealth is generated by ideas today, China will be less likely to succeed if its people cannot exchange information freely. China also will be less likely to succeed if it does not build the legal and political foundation to compete for global capital; less likely to succeed if its political system does not gain the legitimacy that comes from democratic choice.

China's leaders believe that significant political reform carries enormous risk of instability at this moment in their history. We owe it to any country to give a respectful listen to their stated policy about such matters. But the experience of the rest of Asia during this present economic crisis shows that the risks of delaying reform are greater than the risks of embracing it.

As Indonesia learned, you cannot deal with social resentment by denying people the right to voice it. As Korea and Thailand have shown the world, expressed dissent is far less dangerous than repressed dissent. Both countries are doing better now because their elected governments have the legitimacy to pursue reform.

In fact, almost every goal to which China's leaders are dedicated, from maintaining stability to rooting out corruption, to reuniting peacefully with Taiwan, would actually be advanced if they embraced greater openness and accountability.

We have promoted that goal by airing differences candidly and directly with China's leaders, by encouraging closer ties between American and Chinese people. Those ties have followed in the wake of official contacts, and have the potential to bring change.

The people-to-people ties have made it possible for over 100,000 Chinese students and scholars to study in America, and thousands of American teachers and scholars -- students -- to go to China. They have enabled American non-governmental organizations to help people in China set up NGOs of their own. They have allowed Americans to work with local governments, universities and citizens' groups in China -- to save wetlands and forests, to manage urban growth, to support China's first private schools, to hook up schools to the Internet, to train journalists, to promote literacy for poor women, to make loans for Tibetan entrepreneurs, to begin countless projects that are sparking the growth of China's civil society. They have permitted Chinese lawyers, judges and legal scholars to come to America to study our system.

Now, we don't assume for a moment that this kind of engagement alone can give rise to political reform in China, but despite the obstacles they face, the Chinese people clearly enjoy more freedom -- in where they work, and where they live, and where they go -- than they did a decade ago.

China has seen the emergence of political associations, consumer groups, tenant organizations, newspapers that expose corruption and experiments in village democracy. It has seen workers demanding representation and a growing number of people seeking the right to form political parties, despite the persecution they face. I met with many such agents of change when I visited China last year.

Of course, it is precisely because these changes are meaningful that the Chinese government is pushing back. Its actions may be aimed at individuals, but they are clearly designed to send a message to all Chinese that they should not test the limits of political freedom. The message they send the world, however, is quite different. It is one of insecurity, not strength. We often see that a tight grip is actually a sign of a weak hand.

Now, we have made it clear to China's leaders that we think it's simply wrong to arrest people whose only offense has been to engage in organized and peaceful political expression. That right is universally recognized and democratic nations have a duty to defend it. That is why we are seeking support at the U.N. Human Rights Commission in Geneva for a resolution on human rights in China.

We will also urge China to embrace the International Covenant on Civil and Political Rights -- in word and in deed. We will keep pressing the Congress to fund programs that promote the rule of law in China. We will keep working to promote a dialogue between China and the Dalai Lama, and respect for Tibet's cultural and religious heritage.

But there is one thing that we will not do. We will not change our policy in a way that isolates China from the global forces that have begun to empower the Chinese people to change their society and build a better future. For that would leave the people of China with less access to information, less contact with the democratic world, and more resistance from their government to outside influence and ideas.

In all these areas, the debate China's policy has sparked in our country can be constructive by reminding us that we still face challenges in the world that require our vigilance. It can also remind the Chinese government that the relationship between our two countries depends in large measure not only on the actions of the President and the Executive Branch, but on the support of the American people and our Congress, which cannot be taken for granted.

But as the next presidential election approaches, we cannot allow a healthy argument to lead us toward a campaign-driven Cold War with China; for that would have tragic consequences: an America riven by mistrust and bitter accusations; an end to diplomatic contact that has produced tangible gains for our people; a climate of mistrust that hurts Chinese Americans and undermines the exchanges that are opening China to the world.

No one could possibly gain from that except for the most rigid, backward-looking elements in China itself. Remember what I said at the outset: The debate we're having about China today in the United States is mirrored by a debate going on in China about the United States. And we must be sensitive to how we handle this, and responsible.

I know the vast majority of Americans and members of Congress don't want this to happen. I will do everything in our power to see that it does not, so that we stay focused on our vital interests and the real challenges ahead.

We have much to be concerned about. There is North Korea, South Asia, the potential for tensions in the Taiwan Strait and the South China Sea. There is the tragic plight of political prisoners; the possibility, also, that China will not realize its growth potential, that it will become unstable because of the distressed economy and angry people.

But we have every reason to approach our challenges with confidence and with patience. Our country, after all, now, is at the height of its power and the peak of its prosperity. Democratic values are ascendant throughout much of the world. And while we cannot know where China is heading for sure, the forces pulling China toward integration and openness are more powerful today than ever before. And these are the only forces that can make China a truly successful power, meeting the demands of its people and exercising appropriate and positive influence in the larger world in the 21st century.

Such a China would indeed be stronger, but it also would be more at peace with itself and at ease with its neighbors. It would be a good thing for the Chinese people, and for the American people.

This has been the lodestar of our policy for the last six years -- a goal that is consistent with our interests and that keeps faith with our values; an objective that we will continue to pursue, with your help and understanding, in the months and years ahead.

This visit by Premier Zhu is very important. The issues that are raised from time to time which cause tensions in our relationship, they are also very important. But I ask you, at this Institute, not to let the American people, or American policy-makers -- or American politicians in a political season -- lose sight of the larger interests we have in seeing that this very great country has the maximum possible chance to emerge a more stable, freer, more prosperous, more constructive partner with the United States in the new century.

Thank you very much. (Applause.)

END 11:07 A.M. EDT

Message Sent To:

RECORD ID:
RECEIVED:

TO: KERRICK

FROM: BAUCUS, MAX S

DOC DATE: 2
SOURCE REF:

KEYWORDS: CHINA P R WTO
DCO

PERSONS: ZHU RONGJI

SUBJECT: FWDS SPEECH ON CHINA WTO ACCESSION & WELCOMES COMMENTS

ACTION: PREPARE MEMO FOR KERRICK DUE DATE: 19 APR 99 STATUS: S

STAFF OFFICER: LIEBERTHAL LOGREF:

FILES: PA NSCP: CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
LIEBERTHAL	HAMMONDS	LEE
	KEITH	SCHWARTZ
	LACKEY	Kerrick
	SCHAEFER	

COMMENTS: SAME SPEECH AS 9902388 TO JS ** STAFFED PER KERRICK

DISPATCHED BY ______ DATE ______ BY HAND W/ATTCH

OPENED BY: NSDMK CLOSED BY: DOC 1 OF 1

MONTANA

2569

United States Senate

WASHINGTON, DC 20510-2602

INTERNET:
...cus.senate...
...gov/~bauc

March 24, 1999

General Donald Kerrick
Deputy National Security Advisor
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear General Kerrick:

Knowing of your interest in the United States' engagement policy with China, I thought I would share some of my recent thinking with you. With Chinese Premier Zhu Rongji's upcoming visit in April and China's pending accession to the World Trade Organization, our relationship with China is at a crucial crossroad. Recently, I gave a speech on the floor of the Senate stating my views concerning U.S.-China relations which I thought might interest you.

Our policy towards China has remained one of our most controversial subjects over the years. Strong feelings on these issues are appropriate. But I believe our China policy debate often focuses too much on emotion and response to headlines. And it includes too little serious long-term analysis on the facts, the trends and the sort of relationship we should have with the world's biggest country.

It is a complex question, and one on which many people have differing opinions. Thus, I have taken the liberty of sending you a copy of a speech that I gave on the Senate floor last week which reflects my own thoughts on the principal security, trade and moral issues this debate must address. I hope you will find them interesting and useful. And I welcome your comments.

With best personal regards, I am

Sincerely,

Max Baucus

MSB/za

Senator Max Baucus
Remarks on the Senate Floor

China's WTO Accession
and
the Visit of Premier Zhu Rongji

March 17, 1999

Remarks of Senator Max Baucus
China's WTO Accession
and
the Visit of Premier Zhu Rongji

March 17, 1999

Mr. President:

I rise this morning to offer some thoughts on our relations with China, and in particular the prospects of China's WTO membership, as the visit of Premier Zhu Rongji to the United States next month approaches.

CONTEXT OF RELATIONSHIP

Let me begin, however, with some context.

During this decade, the Senate and the country as a whole has had an intense debate on China policy. Participants in this debate have taken radically different views on the prospects of our relationship, and on the trade, security and human rights policies we should adopt in it.

But virtually all participants have held one basic assumption: that is, that economic growth in China will inevitably continue at a very rapid rate for many years to come, and that consequently, China is a "rising" regional power which is likely to become a superpower economy and military power on a par with ourselves.

For some time I have been skeptical of this assumption. In the past year, as the Asian financial crisis has affected China more and more deeply, another possibility has become quite clear: China's immediate future may be one of protracted economic difficulties and social instability rather than unbroken ascendance.

Within the past year, China's growth appears to have dropped significantly. Foreign investment commitments have dropped. Signs of financial crisis have emerged in Guangdong Province. China's exports overall seem to have dropped due to the contraction of Asian economies. And unemployment in cities has risen sharply.

This has coincided with growing strains in our relationship. A number of Chinese actions -- notably arrests of a number of people associated with the Chinese Democracy Party, and a series of statements by Chinese officials about American research on theater missile defense -- have raised a great deal of concern, and rightly so.

These have been combined with inflammatory reports in the press on clandestine Chinese efforts to gain access to American military technology, including nuclear weapons design.

U.S. RESPONSE

How do we respond?

First of all, we should not simply set these issues aside and we should not be intimidated. In our bilateral relationship, I do not, for example, agree with those who say that spying -- especially in areas as sensitive as nuclear technology -- is a natural and tolerable activity by foreign governments and that the only fitting response is better security in the U.S.. Spying is intolerable and a breech of national security of this magnitude deserves the most serious attention and swiftest of action.

And I do not agree with Chinese contentions that policies to defend American troops abroad, our treaty allies and our homeland from missile attack are destabilizing and provocative.

And with respect to Taiwan, our goal must always be prevention of conflict in the Strait, and the more China threatens Taiwan with missiles, the more Taiwan will need to provide for security against missiles. Likewise, we should continue to develop our relationship with our Asian allies and the Pacific region generally.

Special priorities this year should be ratification of the newly developed defense guidelines in our alliance with Japan; passage of the legislation allowing joint military exercises with the Philippine Senate; conclusion of the negotiations toward a commercial agreement and normal trade relations with Vietnam; and broader efforts toward economic recovery in Asia.

At the same time, however, we should avoid seeing the present strains in relations with China as signs of inevitable confrontation. They likely reflect growing fears of domestic unrest and loss of confidence in China's future strength, rather than an arrogance born of security and success.

And while we should be firm, we must also avoid being wilfully provocative or unwilling to seek out common interests.

U.S. INTERESTS IN WTO ACCESSION

That brings me to the largest single item of common interest on our agenda: China's potential accession to the WTO.

Such an accession would have immense potential benefits for both America and China.

From our perspective, it can create a more reciprocal trade relationship; promote the rule of law in China; and accelerate the long-term trend toward China's integration into the world economy and the Pacific region.

This integration is, we should always remember, immensely important to our long-term security interests.

To choose one example, twenty-five years ago China would likely have seen the Asian financial crisis as an opportunity to destabilize the governments of Southeast Asia, South Korea and perhaps even Japan. Today it sees the crisis as a threat to its own investment and export prospects, and has thus contributed to IMF recovery packages and maintained currency stability.

Thus China's policy has paralleled and complemented our own; and as a result, the Asian financial crisis remains an economic and humanitarian issue rather than a political and security crisis.

From China's perspective, WTO entry has the long-term benefits of strengthening guarantees of Chinese access to foreign markets and promoting competition and reform in the domestic economy; and the short-term benefit of creating a new source of domestic and foreign investor confidence at a time of immense economic difficulty.

COMMERCIALLY MEANINGFUL ACCESSION ESSENTIAL

Neither of us, however, will win the full benefits of WTO accession unless the accession agreement is of commercially meaningful quality. Thus Congress should be vigilant about the details of such an agreement. Broadly speaking, this means:

- Significant tariff reductions and other measures to liberalize trade in goods;
- Market access for agriculture, including the elimination of phony health barriers on Pacific Northwest wheat, citrus, meats and other products.
- Liberalization of service sectors including distribution, telecommunications, finance, audiovisual and others;

This requires a lot from China. It is not entirely clear that China will make a commercially meaningful offer to us. And if they do not, we should be willing to wait rather than push forward with this accession.

ACCESSION MUST BE JUDGED ON TRADE POLICY MERITS

However, if they are ready to make such an offer, the United States should clearly be willing to say yes. That should include the permanent normal trade relations we offer virtually all WTO members.

Congress would, of course, have to vote on permanent normal trade relations. Because Congress already holds all the cards with respect to the Normal Trade Relations vote, I am concerned about proposals to create a second vote, which would delay accession by requiring a prior vote on admission. This raises a number of troubling questions.

First, I think we need to be prepared to move quickly if and when we get the desired commercially acceptable accession package -- simply put, we must be prepared to strike when the iron is hot. Such an important step should not be hamstrung by requiring a separate vote by Congress.

Second, the proposal raises constitutional and precedential questions. Congress has not voted on any of the previous 110 GATT and WTO accessions since 1948, since WTO accessions are executive agreements which generally require no U.S. concessions.

But most important, a vote on WTO accession would more likely be a judgment on the immediate state of our overall relationship with China than on the trade policy details of the accession.

China's accession to the WTO is about whether China is ready to trade openly and fairly with the United States. Whether China will accept rule of law and abide by that rule of law.

In effect, we would likely hold a set of unilateral trade concessions by China to the United States hostage to every other concern we have about China – from human rights to security, environment, labor policies and much more. The likely result would be an immense loss to the United States. Therefore, I do not favor such a proposal and will oppose it on the floor.

CONCLUSION

In conclusion, Mr. President, China policy must not be considered simply in isolation.

Premier Zhu's visit offers us an immensely important opportunity, both to right the overall course of our relationship and to conclude the specific talks over WTO membership for China on the right, commercially meaningful basis. I welcome this and hope our colleagues will do the same.

But this relationship is only one piece -- important, but only one piece -- in our broader relationship with the Pacific region and our Asian allies.

If we are develop these other relationships carefully; if we are firm with China when necessary but also willing to seek out areas of common interest; if we react to difficult periods with confidence in our own strength and commitment to our own interests, we can expect a very good future.

Thank you, and I yield the floor.

Joint U.S. - China Statement
Status of Negotiations on China's Accession to the World Trade Organization
April 8, 1999

On the occasion of the official visit of the Premier of the Government of the People's Republic of China Premier Zhu Rongji, to the United States, President of the United States William Jefferson Clinton and Premier Zhu Rongji jointly affirm that China's admission to the World Trade Organization (WTO) is in the interest of the United States, the People's Republic of China, and the global trading system. To that end, they welcome the significant progress made by the United States and the People's Republic of China toward a strong agreement based on a balance of rights and obligations. Noting that agreement has not been reached on some important issues, they commit to work to resolve these remaining issues through further bilateral negotiations in order to conclude a strong agreement as the basis for the accession of the People's Republic of China to the WTO.

President Clinton and Premier Zhu recognize the complexity of WTO accession negotiations. In this regard, they note that agreement has been reached on market access for agricultural and industrial goods as well as a wide range of services sectors, as set out in Attachment 1, but that certain matters remain to be resolved in banking, including consumer auto finance, as well as securities and audio visual services. They further welcome the conclusion of the Sino-U.S. Agricultural Cooperation Agreement, especially the resolution of bilateral issues concerning imports by the People's Republic of China of U.S. citrus, meat products, and Pacific Northwest wheat, as set out in Attachment 2. President Clinton and Premier Zhu note agreement has been reached on a variety of important rules to be applicable in the WTO, concerning trading rights, technology transfer and offsets, state enterprises, and subsidies, as set out in Attachment 3. However, they recognize that certain differences remain to be resolved on a mechanism to ensure implementation, the duration of provisions governing dumping and product safeguards, and rules governing textiles trade.

President Clinton and Premier Zhu welcome this significant progress and instruct their trade ministers to resume bilateral negotiations in order to satisfactorily resolve the important remaining issues as soon as possible in support of the common goal of admission of the People's Republic of China to the WTO on strong commercial terms in 1999.

China -- WTO
April 8, 1999

Q: Why were you unable to reach a deal on WTO?

A: We have made significant progress toward a strong agreement, and today we will act to lock in that progress. But we have still have critical differences in important areas of trade. We are committed to working to resolve these remaining issues through further bilateral negotiations so that we can conclude a strong agreement.

Let's remember what these talks are about. America has an interest in integrating China into the world trading system and in seeing it join the World Trade Organization on clearly acceptable, commercial terms. That is a goal we have been working toward in a bipartisan fashion for 13 years now. Getting this done in the right is profoundly in our national interests. It is not a favor to China; it is the best way to level the playing field.

China already has broad access to our markets, as recent trade figures make perfectly clear. If China accepts the responsibilities that come with WTO membership, that will give us broad access to China's markets, while accelerating its internal reforms and propelling it toward acceptance of the rule of law.

The bottom line is this: If China is willing to play by the global rules of trade, it would be a mistake for the United States to say no.

Q: Where have you made progress and where are your remaining differences?

A: We have reached agreement on access to China's markets for agricultural and industrial goods and a wide range of services sectors. We have also reached agreement on a variety of important rules, including trading rights, prohibitions on forced technology transfer and offsets, treatment of state-owned and state-invested enterprises, dumping and subsidies. We will spell out those areas of agreements in great detail so that we can lock in that progress.

We have also resolved bilateral issues dealing with U.S. access to the Chinese market for citrus, meat products, and Pacific Northwest wheat, which is very good news for American farmers and ranchers.

At the same time, this is a very complex negotiation, involving virtually all areas of trade in China. We have consistently indicated that we will be flexible and pragmatic, but the bottom-line is that we must achieve market access objectives of U.S. businesses in China. Until these issues are resolved there can't be a deal. Unresolved issues here affect overall market access, and certain goods and services sectors.

Q: Did the White House block a deal?

A: We are pursuing an agreement that is commercially viable. That means that China must prove a willingness to open its markets on commercial terms -- an effort that Republican and Democratic Administrations' have been working on for 13 years.

Today, we are locking in the progress we have made across a broad range of issues and committing ourselves to negotiating the difficult issues that remain. In the end, a final deal will be driven by real market-opening commitments that give better access to our businesses and farmers. That is the key to our approach in these negotiations.

Q: Could you support legislation to have Congress approve any WTO deal?

A: We are working very closely with the Congress and all affected industries on WTO accession, and will continue to do so.

Our laws already require that Congress will have a very direct role in this process.

Q: Congress seems to be united in opposition to admitting China to the WTO. Is that a concern?

A: For thirteen years, Republican and Democratic Administrations, have sought to bring China in the World Trade Organization (WTO) -- and its predecessor, the GATT. The reason is simple: there is no more effective way to open China's markets, advance the rule of law and economic reform in China, and make China's trade practices consistent with international norms than bringing it into the WTO on the right commercial terms.

Bringing China into the WTO on the right commercial terms is fundamentally in our strategic, national, and commercial interest. It means opening China's market, and bringing China's trade practices into line with international trade rules.

Q: Does our record trade deficit with China make it harder to get congressional backing for WTO?

A: If anything, it strengthens the case for getting a solid WTO package that will open to China's markets to American businesses and farmers. America already is the world's most open and wealthiest major economy, and the trade numbers demonstrate that China's exports are climbing.

Getting China into the WTO on commercially viable terms is about opening China's restricted economy and ensuring that China abides by world trading rules. We believe that is an important objective and we will continue to pressure China to come forward with a substantial package to open its markets.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
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FOR IMMEDIATE RELEASE
APRIL 7, 1999

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CHINA ISSUES NEW DIRECTIVE TO FIGHT SOFTWARE PIRACY

United States Trade Representative Charlene Barshefsky welcomed an important new action taken by the Government of China to better protect exports of U.S. computer software, one of the United States' most important export products. The Government of China has issued a new high-level directive to all Chinese Government entities directing that they use only legitimate computer software and that such software be used only as authorized.

"This is a milestone in China's efforts to increase intellectual property protection," stated Ambassador Barshefsky. "The Chinese Government's action, which is consistent with our landmark 1995 bilateral IPR agreement, sets an important example for the Chinese private sector and for other national governments as well. The Chinese decree is particularly significant given the size and rapid expansion of the Chinese market for personal computers, now the world's fifth largest."

The State Council of the Chinese Government – the highest executive authority in the Peoples Republic of China – issued this decree mandating legal software usage by all ministries, commissions and agencies of the Chinese Government. The decree specifically calls on all "provinces, autonomous regions, and municipalities; all ministries and agencies directly under the State Council" to implement in a "serious and thorough manner" a directive which had been previously issued by China's State Copyright Administration prohibiting the use within government of illegally duplicated software.

"Success of this new decree will depend upon its full implementation," continued Ambassador Barshefsky. "We sincerely hope that the Chinese Government will implement this decree actively and in a fully transparent manner."

On October 1, 1998 President Clinton issued an Executive Order directing all U.S. government agencies to ensure that legitimate software is used and that it be used only as authorized. In announcing issuance of the new Executive Order, Vice President Gore called on Ambassador

Barshefsky to encourage foreign governments to enact similar protections for computer software used within their governments. USTR has been joined by the Department of Commerce in urging the Chinese Government to do likewise. Ambassador Barshefsky applauds Secretary Daley's personal efforts in pressing this issue with the Chinese.

In addition to China, Paraguay, Thailand, Turkey, Philippines, Korea and Jordan have issued similar decrees in recent months. USTR continues to work with other governments to increase the protection of intellectual property.

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FOR IMMEDIATE RELEASE
APRIL 8, 1999

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Statement of Ambassador Charlene Barshefsky Regarding Broad Market Access Gains Resulting from China WTO Negotiations

United States Trade Representative Charlene Barshefsky announced today that U.S. and Chinese negotiators have secured broad progress toward an expansive market access agreement with China. Additionally, while certain issues remain to be resolved, China has made commitments to adopt rules enforceable in the World Trade Organization (WTO) related to such issues as technology transfer and offsets, subsidies, product safeguards and state enterprises. In addition, China agreed that the U.S. can continue to apply its special antidumping rules to China. Finally, China has agreed immediately to an SPS package that will immediately end its ban of Pacific northwest wheat, U.S. meat and citrus.

Ambassador Barshefsky outlined the importance of progress achieved to date as follows:

"President Clinton and Premier Zhu referred to the complexity of WTO accession negotiations which include far-reaching market access commitments as well as commitments to important rules of commerce. Indeed, the scope of issues involved in these negotiations is unparalleled outside of a multilateral Round. There are more than 5,000 tariff line items and complex interlocking issues from national treatment to distribution rights which we have addressed here to ensure fair treatment and enforceable rights for U.S. goods, services, and agricultural providers. The Leaders noted that we have reached agreement concerning market access for agricultural and industrial goods as well as a wide range of services sectors, but that certain differences remain to be resolved in banking, including auto finance, securities, and audio-visual services.

"We also resolved bilateral issues to ensure U.S. access to the Chinese market for U.S. citrus, meat products, and Pacific Northwest wheat. This is an important and immediate area of progress for our agricultural industries, which we hope will lead to beneficial results in other areas.

"The President and the Premier also referenced agreement on a variety of important rules, including trading rights, technology transfer and offsets, treatment of state enterprises, and subsidies. Both Leaders acknowledged that certain differences remain to be resolved on a mechanism on implementation, the duration of provisions governing dumping and product safeguards, and rules governing textiles trade. We will now focus on resolving remaining issues as soon as possible in support of our common goal of admitting the People's Republic of China to the World Trade Organization on strong commercial terms by the year 2000.

"The market access commitments we are locking-in today include China's full participation in the three global agreements negotiated in the WTO since the Uruguay Round: the Information Technology Agreement (ITA) – where China has committed to eliminate tariffs across the vast range of covered technology products in a three-year timetable; the Basic Telecommunications Services Agreement and the Financial Services Agreement. In addition, China has agreed to participate in the "APEC Sectoral Liberalization Initiative" which is now before the WTO and covers $1.5 trillion in traded goods.

"While much hard work remains to complete China's accession to the WTO, including addressing specific areas which we believe are critical to U.S. interests, these market access terms reflect the Administration's commitment to a comprehensive, far-reaching commercially-meaningful agreement.

"This agreement is commercially-meaningful in four different ways:

- "First, it is comprehensive. It covers agriculture, industrial goods and services. It covers unfair trade practices including tariffs, quotas, other non-tariff measures, non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address the tariffs and other barriers China applies at the border; the limits China places on sales, customer service and maintenance within the domestic market; China's unwarranted sanitary and phytosanitary standards; and limits on the rights of service providers to set up businesses in China.

- "Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including industrial countries. For example, Chinese tariffs will fall to an average of 7.1% in our priority areas – well below the rates most developing countries apply and comparable to those of major industrial trade partners.

- "Third, it is enforceable. The commitments China has made in all areas are specific, measurable, and will be fully enforceable.

- "Fourth, it delivers market-based reforms fast. Immediately upon accession, China will make substantial cuts in agricultural and industrial tariffs; begin opening sectors from insurance to telecommunications to professional services to foreign service providers. The phase-in of further broad concessions in all these areas will be limited to five years in the vast majority of cases and in many cases between one and three years.

"If followed by good-faith work by China on the Protocol, textiles trade and other concerns, this agreement will create a far more open, fair, and rules-based Chinese market, advance broader U.S. values of transparency and the rule of law; and serve our long-term strategic interest by anchoring China more firmly, both in the Asia-Pacific and world economies."

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April 7, 1999

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"This is a milestone in China's efforts to increase intellectual property protection," stated Ambassador Barshefsky. "The Chinese Government's action, which is consistent with our landmark 1995 bilateral IPR agreement, sets an important example for the Chinese private sector and for other national governments as well. The Chinese decree is particularly significant given the size and rapid expansion of the Chinese market for personal computers, now the world's fifth largest."

The State Council of the Chinese Government – the highest executive authority in the Peoples Republic of China – issued this decree mandating legal software usage by all ministries, commissions and agencies of the Chinese Government. The decree specifically calls on all "provinces, autonomous regions, and municipalities; all ministries and agencies directly under the State Council" to implement in a "serious and thorough manner" a directive which had been previously issued by China's State Copyright Administration prohibiting the use within government of illegally duplicated software.

"Success of this new decree will depend upon its full implementation," continued Ambassador Barshefsky. "We sincerely hope that the Chinese Government will implement this decree actively and in a fully transparent manner."

MARKET ACCESS AND PROTOCOL COMMITMENTS

I. PROCESS OF CHINA'S WTO ACCESSION

China's WTO accession represents an opportunity to address a broad range of unfair trade practices, trade barriers, discriminatory regulatory processes, lack of transparency, and other policies which limit American participation in the Chinese market or unfairly affect American trade. The broad set of commitments China has made today, and the substantial negotiations which remain to be held, will advance American interests in a fundamental way, and complement broader policies intended to move China toward internationally accepted standards of conduct.

China's accession process includes bilateral negotiations including market access (with the United States and other trade partners); bilateral negotiations toward a "Protocol" (i.e., rules) addressing U.S. concerns on issues including dumping, safeguards, and others; and multilateral negotiations on those and the remaining Protocol issues. WTO accession is thus a complex and multi-faceted process. This fact sheet covers the market access; a second (attached) covers the Protocol commitments.

Broadly speaking, the market access commitments China has made will bring China at or above existing WTO standards on issues and sectors of major concern to the U.S.. They address each layer of Chinese trade barriers to American exports. For example, at present, an American good faces not only high tariffs and at times quotas, but a web of other barriers which, if unaddressed, could make tariff reductions meaningless. These include application of unscientific sanitary and phytosanitary standards in agriculture, non-tariff barriers to industrial goods, restrictions on distribution and trading rights, and discrimination against imports and foreign-invested companies.

In each case, the U.S. has achieved commitments that address the principal barriers to American products; are highly specific and fully enforceable; are phased-in over a relatively short period of time, with increased market access in every area as of day one of China's ultimate accession; do not offer China special treatment; and meet or exceed commitments made by many present WTO members. The commitments include:

- Significant market access benefits effective immediately on China's accession.
- Full market access for U.S. firms to distribute their products throughout China.
- Tariff reductions immediately upon accession, with further phase-ins over reasonable periods of time to levels below those of most U.S. trade partners.
- Bindings for all tariffs -- i.e., China will be unable to raise tariffs again after accession.

- Elimination of quantitative restrictions.
- Resolution of outstanding problems with sanitary and phytosanitary standards for key agricultural products, effective immediately.
- Participation in the three major multilateral agreements negotiated since the Uruguay Round: the Information Technology Agreement; the Agreement on Basic Telecommunications; and the Financial Services Agreement.
- Commitments to more open service sectors which cover the broad range of sectors, including distribution, value-added telecommunications, insurance, computer and business services, environmental services, franchising and direct sales, legal and accounting, sound recordings, and entertainment software.

China's specific commitments in the three strategic areas of agriculture, industrial goods, and services are discussed below.

I. AGRICULTURE MARKET ACCESS

The agricultural market access commitments include measures to address the following problems: trading rights, distribution, high tariffs; quotas; application of unscientific SPS standards; the reliance on state trading companies; and export subsidies.

Taken as a whole, these commitments move China toward a system based almost entirely on tariffs, with extremely low tariff rates (1-3%) in most bulk commodities. More specifically, it reduces tariffs to levels below those of most American trade partners, with the greatest reductions in the areas of top priority to U.S. producers; binds tariff concessions; eliminates quantitative restrictions on imports; requires use of science-based SPS standards; reduces the role of state trading enterprises for key commodities; and eliminates export subsidies.

A. TARIFF REDUCTIONS

China will reduce tariffs immediately on accession, and when fully phased in will result in tariff levels comparable with or better than those of many of our other major trading partners (including developed country trading partners).

Average Rates – Overall, China will reduce its overall average tariff for agricultural products to 17%. The tariff reduction will be greater for U.S. priority products. In these sectors the average tariff will drop to 14.5%.

Phase-in Periods -- All tariff cuts will be implemented by 2004, the date when all other WTO members will have implemented their Uruguay Round tariff cuts.

All agricultural tariffs will be bound (cannot be increased). Specific examples include:

Soybeans – a 3% tariff will be bound on accession.

Meats -- Tariff reductions include:

	Present	2004
Beef	45%	12%
Pork	20%	12%
Poultry	20%	10%

Fruits – Tariffs reductions include:

	Present	2004
Citrus	40%	12%
Grapes	40%	13%

Apples	30%	10%
Almonds	30%	10%

Wine -- Tariffs on wine will be reduced by 70%, from 65% to 20%.

Dairy – Tariff reductions in dairy include:

	Present	2004
Cheese	50%	12%
Ice Cream	45%	19%

B. TARIFF RATE QUOTA SYSTEM FOR BULK COMMODITIES

China's commitments follow WTO standards in eliminating all quantitative restrictions. In particularly sensitive sectors, China will adopt tariff-rate quotas (i.e. a system in which imports up to the quota level are charged a minimal tariff -- usually 1-3% -- and imports above that level a high tariff). This system provides a very strong incentive for state enterprises to purchase bulk commodities at world market rates.

The total levels of these TRQs are substantially above present import levels on accession, and provide for future growth. In all cases, we sought to maximize likelihood that the full quota would be used and ensure opportunity for private traders to participate, both by allocating an initial share of the quota to private traders and providing for reallocation of quota from state enterprises to private traders if state enterprises do not buy the full TRQ amount.

Results in U.S. priority sectors are as follows:

Soybean Oil – TRQ eliminated by 2006. The TRQ will start at 1.7 million metric tons, rising to 3.3 million tons by 2005. Private sector trade will begin at 50% and rise to 90%.

Wheat – Quota on accession is 7.3 million metric tons, rising to 9.3 million metric tons. (Compares to present Chinese import level of less than 2 million metric tons.) Private sector will initially receive 10% of this quota, with reallocation of any unused state enterprise portion available later in the calendar year.

Corn – Quota on accession is 4.5 million metric tons, rising to 7.2 million metric tons. (Compares to present import level of 250,000 metric tons.) Private sector will initially receive 25% of this TRQ, rising to 40% by 2004, with reallocation of any unused state enterprise portion available later in the calendar year.

Rice – Quota on accession is 2.6 million metric tons, rising to 5.3 million metric tons. Half of this will cover short and medium grain rice, where the U.S. is most competitive.

50% of this TRQ will go to the private sector. (Compares to present import level of 250,000 metric tons.)

Cotton – Quota on accession is 743,000 metric tons, rising to 894,000 tons by 2004. (Compares to present import levels of 200,000 metric tons.) Private sector will have 67% of this TRQ.

Barley – No TRQ, and reduction of tariffs to 9%.

Other products in which TRQs will be applied are products in which the U.S. has little or no trade interest. These include wool, sugar, palm oil and rapeseed oil.

B. SANITARY AND PHYTOSANITARY (SPS) RESTRICTIONS:

China agrees that sanitary and phytosanitary disputes should be settled scientifically.

BILATERAL AGREEMENTS ON WHEAT, CITRUS AND MEAT

China has also agreed to lift immediately, with the signature of three bilateral agreements, (concluded in parallel with the market access agreement but effective immediately on signature) unjustified SPS bans on wheat, citrus fruits and meat. These bilateral agreements resolve longstanding disputes between the U.S. and China and can lead to rapid export growth. Furthermore, they provide a strong indication that China is willing to implement the obligations of the WTO SPS agreement.

Meat – China will open its market to U.S. pork, beef and poultry by agreeing to accept USDA certification for meat safety for U.S. exports.

Citrus – China will open its market to U.S. oranges, grapefruit and other citrus fruits, eliminating a current ban and establishing a science-based phytosanitary system. Industry estimates that trade will reach $1.2 billion in a year, an increase of $700 million over current imports through informal channels.

Wheat – China will eliminate restrictions on imports of wheat from the Pacific Northwest imposed because of unjustified concerns about TCK smut.

D. EXPORT SUBSIDIES

China has committed not to provide any export subsidies for agricultural products. This is particularly important for corn, cotton and rice. It also provides a strong foundation for the next WTO Round, in which total elimination of agricultural export subsidies worldwide is a major U.S. goal, already articulated by the Vice President.

II. MARKET ACCESS FOR INDUSTRIAL PRODUCTS

With respect to market access for industrial goods, China has agreed to allow freedom for U.S. firms to import, export and distribute their goods within China; significant tariff reductions to bring tariff levels to levels comparable with major trading partners and below those of most developing countries; binding of all tariff concessions; and phase-out of all quantitative restrictions on imports.

Some areas of particular interest to the U.S. include Chinese participation in a number of existing international zero-tariff agreements (including the Information Technology Agreement) as well as individual sectors including, but not limited, to autos, wood and wood products, chemicals, fishery products and others. As in agriculture, most results in industrial goods compare favorably to those of other major trading partners, particularly those in developing countries.

A. TRADING RIGHTS AND DISTRIBUTION

Trading rights and distribution are the major priority of the manufacturing sector. At present, China severely restricts trading rights (the right to import and export) and distribution (wholesaling, retailing, maintenance and repair, transportation, etc.) As in agriculture, such restrictions give China a layer of protection against imports which if unaddressed would make tariff concessions of little value.

The U.S. thus has sought and won agreement for elimination of these restrictions. China will provide, for the first time, full trading rights and distribution rights to U.S. firms. These will be progressively phased in over three years. Even for its most sensitive and protected industries, such as chemical fertilizers, crude oil and processed petroleum, China will provide for trading rights and distribution. Distribution services are discussed in more detail in the following section on services trade.

B. OVERALL INDUSTRIAL TARIFF REDUCTIONS

China also agreed to provide significant tariff reductions which would be bound.

Rates – China will reduce average tariffs from the 24.6% average in 1997 to 9.44%. The average tariff for our priority products will be even lower, reaching 7.1%. This is a 56% cut from applied rates in 1998 and a 71% cut since the beginning of market access negotiations in 1994.

All Tariffs Bound – China will bind its entire tariff schedule, meaning it will accept a legal commitment not to raise tariffs in the future above the bound level. Very few countries have done this; many retain rights to raise tariffs significantly above the rates they now apply.

Phase-in -- Two thirds of tariff cuts will be implemented by 2003. The balance will be phased in by 2005, with a limited number of exceptions.

C. TARIFF REDUCTIONS IN US PRIORITY AREAS

As noted above, China's tariff cuts are larger in U.S. priority areas. Some provisions in areas of special interest to the U.S. include:

High Technology – China will implement the Information Technology Agreement (ITA). This will reduce tariffs from present levels averaging 13.3% to zero for semiconductors, computers, computer equipment, telecommunications equipment and other information technology products. Most of these tariff eliminations will be phased in by 2003 with some exceptions until 2005. All other ITA participants will have implemented tariff cuts by 2005.

Autos: In the auto sector, China will reduce tariffs from the current 80-100% levels to 25% in 2005, with the cuts phased in equally each year. Auto parts tariffs will fall to an average of 10%.

*** Note – In this sector, tariff restrictions are augmented by quotas under China's industrial policy for autos. These quotas will be progressively eliminated, with the point of departure China's level of imports before creation of the auto industrial policy. See below under "Quotas and Non-Tariff Measures". In addition, auto retail rights will be provided for the first time (see services section.)

APEC Sectors – China has agreed to implementing the early voluntary sectoral liberalization initiative of APEC now under consideration in the WTO, when the WTO accepts these sectors for implementation. This would eliminate tariffs on forest products (wood and paper), environmental goods and services, energy and energy equipment, chemical harmonization, fish, toys, gems and jewelry, and medical equipment and scientific instruments.

Wood & Paper: China will reduce tariffs from present levels of 12-18% for wood and 15-25% for paper generally to levels between 5% and 7.5%. This is a sector in which tariff concessions, along with distribution and trading rights, can expand sales rapidly.

Chemicals: China has committed to the lion's share of chemical harmonization -- reducing its tariffs to the levels of other WTO members -- for 70% of chemicals, generally at 5.5% and 6.5%. (At present China's tariffs range up to 35%.) A key reduction is in soda ash, to 5.5%. Tariffs on cosmetics, pharmaceuticals, film, and certain plastics will also be cut substantially below current levels.

Fish – China will reduce tariffs from over 20% to 10% on products of importance to the United States.

Distilled spirits – China will reduce tariffs from 61% to 10%.

D. QUOTAS AND OTHER NON-TARIFF MEASURES

WTO rules bar quotas and other quantitative restrictions. China has agreed to eliminate these restrictions immediately on accession for top U.S. priorities and with phase-ins limited to five years for others.

Quotas: China will eliminate existing quotas upon accession for the top U.S. priorities (e.g. some fertilizers and optic fiber cable). It will phase-out remaining quotas, generally by 2002, but no later than 2005.

Quotas will grow from current trade level at a 15% annual rate in order to ensure that market access increases progressively, and reduces the effect of quantitative restrictions.

Auto quotas will be phased out by 2005, in the interim, the base level quota will be $6 billion (the level prior to China's industrial auto policy), and this will grow by 15% annually until elimination.

III. SERVICES

China today is among the markets most closed to services exports anywhere in the world. Our goals in services thus included negotiation of commitments in a broad array of services sectors; ensuring Chinese accession to the two major existing multilateral services agreements on Basic Telecommunications and Financial Services; and creating a base from which to negotiate future improvements for access to the Chinese services market in the next WTO Round.

China's commitments on services, while we have some further work to do, are comparable to those of most WTO members. They include commitments in all major service categories (with further talks planned on banking, securities and audiovisual), reasonable transitions to eliminate most foreign equity restrictions (especially in sectors where the U.S. has a strong commercial interest), agreed to accede to the Basic Telecommunications and Financial Services Agreements, and full "grandfathering" of current market access for U.S. service providers. Specific commitments are as follows:

A. GRANDFATHERING

China will grandfather all existing current market access and activities in all services sectors. Many companies enjoy benefits given by provincial and central authorities. All these will be protected, even if China's commitments in its services schedule provide for approval by Central Government authority. This will protect existing American distribution services, financial services, professional and other service providers in China, including those operating under contractual or shareholder agreements or a license, from restrictions as Chinese commitments phase in.

B. DISTRIBUTION

In China today, foreign firms have no right to distribute products other than those they make in China, or to own or manage distribution networks, wholesaling outlets or warehouses. China also now frequently issues businesses licenses which limit the ability of American firms to conduct marketing, after-sales service, maintenance and repair and customer support. As the section on industrial goods noted, this is a severe barrier to goods exports as well as to services exports.

China's commitments address all these issues. They reflect a comprehensive commitment on distribution, including wholesaling, direct sales, retailing, maintenance and repair, and transportation. Thus Americans will be able to distribute imported products as well as those made in China, offering significant opportunity to expand U.S. exports of goods. As noted above, China will phase out all restrictions on distribution services within three years.

Even in its most sensitive and protected sectors, China has agreed to provide distribution rights in five years for chemical fertilizer, crude oil, and processed petroleum products.

Services Auxiliary to Distribution

Chinese commitments in services auxiliary to distribution include express delivery services, rental and leasing, air courier, freight forwarding, storage and warehousing, advertising, technical testing and analysis, and packing services. All restrictions will be phased-out in 3 to 4 years, at which time U.S. service suppliers will be able to set up 100% wholly-owned subsidiaries.

C. TELECOMMUNICATIONS

China now severely restricts sales of telecommunications services and bars foreign investment. China's commitments mark its first agreement ever to open its telecommunications sector, both to the scope of services and to direct investment in telecommunications businesses. Through these commitments, China will become a member of the Basic Telecommunications Agreement. Specific commitments include:

Regulatory Principles -- China now allows its telecommunications bureaucracies very wide discretion to apply arbitrary and discriminatory standards. China will now agree to implement the pro-competitive regulatory principles embodied in the Basic Telecommunications Agreement (including cost-based pricing, interconnection rights and independent regulatory authority), and agreed to technology-neutral scheduling, which means foreign suppliers can use any technology they choose to provide telecommunications services.

Scope of Services -- China will phase out all geographic restrictions for:

paging and value added: 4 years
mobile/cellular: 5 years
domestic wireline services and closed user groups: 6 years.

China's key telecommunications services corridor in Beijing, Shanghai and Guangzhou, which represents approximately 75% of all domestic traffic, will begin opening on accession and by 2003 will be open for all telecommunications services.

Investment -- Under present circumstances, China allows no foreign investment in telecommunications services. With this agreement, China will allow 49% foreign investment in all services, and will allow 51% foreign ownership for value added and paging services in 4 years.

D. INSURANCE

In insurance, China now restricts foreign companies to Shanghai and Guangzhou. Only two U.S. firms are permitted to participate even in these markets. Thus we sought to eliminate geographic and numerical limitations -- that is, to ensure that foreign insurance companies can operate in each part of China and without artificial limitations on their activities or number of companies -- and end restrictions on foreign investment. The results include:

Prudential Criteria – China agrees to award licenses solely on the basis of prudential criteria, with no economic needs test or quantitative limits on the number of licenses issued.

Geographic Limitations -- China will permit foreign property and casualty firms to insure large-scale risks nationwide immediately upon accession, and will eliminate all geographic limitations for future licenses over five years, allowing access to the key cities of priority U.S. interest in two to three years.

Scope – China will expand the scope of activities for foreign insurers to include group, health and pension lines of insurance, which represent about 85% of total premiums, phased in over five years.

New Licenses -- China has recently issued four licenses, including two to American companies.

Investment -- China agreed to allow majority ownership, remove onerous joint venture requirements on foreign life insurers, and phase out internal branching restrictions. Life insurers may now choose their own joint venture partners (as opposed to the present policy, under which partners are chosen for insurers by Chinese authorities), will allow 50% ownership on accession, and will phase in the right to 51% share in a joint venture in one year. For non-life, China will allow 51% ownership on accession and form wholly owned subsidiaries in 2 years.

E. BANKING

In the banking sector, China imposes severe geographic restrictions -- for example, only nine foreign banks can conduct business in local currency, and these only in the Shanghai Pudong area. Our negotiations sought full rights for foreign banks to handle both local and foreign currency business transactions (the latter obviously a major factor in opening markets to U.S. goods exports as well as services); the rights to serve Chinese as well as foreign customers;

and liberalize investment. This sector remains under discussion.

F. SECURITIES

This sector remains under discussion.

G. PROFESSIONAL SERVICES

In the professional services, China currently tightly restricts operation of foreign law firms and accounting firms. With respect to these areas, we sought commitments in all significant areas, including both the right to offer services and the right to invest, and binding commitments on the already liberal policies respecting architecture and engineering.

China offers broad coverage for legal, accountancy, taxation, management consultancy, architecture, engineering, urban planning, medical and dental, computer-related services. It will permit foreign majority control except for practicing Chinese law (an exception common to many WTO members.) For accountancy, China has agreed to eliminate a mandatory localization requirement and will now allow unrestricted access to its market to professionals licensed as CPAs in China. China has agreed to apply national treatment in issuing CPA licenses and follow transparent procedures.

H. AUDIOVISUAL

Presently, China severely restricts distribution of sound recordings, videos, movies, books and magazines, and does not allow foreign ownership, construction or operation of cinemas. While this area remains under discussion, China's commitments cover the right to distribute video and sound recordings; and cinema ownership and operation. They include:

Video and Sound Recordings -- China will allow 49% foreign participation for the distribution of video and sound recordings.

Cinemas -- China will allow majority ownership in 3 years for construction, renovation, ownership and operation of cinemas.

I. TRAVEL AND TOURISM

Finally, China until now has imposed a number of restrictions on travel and other touristrelated services. Notably, foreign firms are limited to 11 areas in China, and cannot establish full-service travel agencies. Our goal here was a set of commitments comparable to or better than the relatively high level of commitments made by WTO members. Results include:

Hotels -- China will allow unrestricted access to the Chinese market for hotel operators with the ability to set up 100% foreign owned hotels in 3 years, with majority ownership allowed upon accession.

Travel Services -- Foreign travel operators can provide the full range of travel agency services. For travel agency services, China will allow access to government resorts as well as Beijing, Shanghai, Guangzhou, and Xian.

IV. PROTOCOL AND WORKING PARTY REPORT COMMITMENTS

Commitments in China's WTO Protocol and Working Party Report establish rights and obligations enforceable through WTO dispute settlement procedures. We have agreed on key provisions relating to antidumping and subsidies, protection against import surges, technology transfer requirements and offsets as well as practices of state-owned and state-invested enterprises. While we must still address the duration of some of these provisions and resolve other issues, agreement on the substance of these rules is of special importance to U.S. workers and business. We will also continue work on textile issues and a mechanism to ensure full implementation of commitments.

China will be presenting agreed provisions to the WTO Working Party for incorporation into the accession Protocol and Working Party Report. We will also be addressing the many other rules-related issues, such as specific provisions on China's standards, customs valuation, and national treatment in this multilateral process.

SPECIFIC PROVISIONS

During the negotiations, China has agreed that it will, upon accession, make the following commitments:

A. INVESTMENT AND TECHNOLOGY TRANSFER

First, it will take a set of specific measures to ensure fair treatment for businesses operating in China. This will include eliminating policies to block foreign firms doing business in China from importing inputs for production (i.e., auto firms operating in China would be able to import American-made parts). Measures here include:

- comply with the TRIMs Agreement upon accession, without any developing country transition period;
- eliminate and cease enforcing trade and foreign exchange balancing requirements;
- eliminate and cease enforcing local content requirements;
- refuse to enforce contracts imposing these requirements; and
- only impose or enforce laws or other provisions relating to the transfer of technology or other know-how, if they are in accordance with the WTO agreements on protection of intellectual property rights and trade-related investment measures.

These provisions will also help protect American firms against forced technology transfers, as China has also agreed that, upon accession, it **will not** condition investment approvals, import licenses, or any other import approval process on performance requirements of any kind, including:

- local content requirements,
- offsets,
- transfer of technology, or
- requirements to conduct research and development in China.

These are significant commitments that go a long way in addressing concerns about the terms and conditions of investment in China, and the government's role in what should be commercial decisions.

B. ANTIDUMPING AND SUBSIDIES METHODOLOGY

Second, the Protocol ensures guarantees that American firms and workers will have strong protection against unfair trade practices including dumping and subsidies.

Here, the U.S. and China have agreed that we will be able to maintain our current antidumping methodology (treating China as a non-market economy) in future anti-dumping cases. Moreover, when we apply our countervailing duty law to China we will be able to take the special characteristics of China's economy into account when we identify and measure any subsidy benefit that may exist. While the duration of this provision remains under discussion, reaching agreement on the substance provides necessary assurance to U.S. industries that they can have effective protection against unfairly traded imports.

These provisions recognize both the ongoing reform program in China and that special difficulties may exist in making necessary determinations under the antidumping and countervailing duty laws.

C. PRODUCT SPECIFIC SAFEGUARD

Third, the Protocol ensures that American domestic firms will have strong protection against unpredicted surges of imports.

To do this, the Product-Specific Safeguard provision sets up a special mechanism to address increased imports that cause or threaten to cause market disruption to a U.S. industry.

China is a major exporting country that enjoys open access to U.S. markets. This mechanism, which is in addition to other WTO Safeguard provisions, differs from traditional safeguards in that it permits

- China to address imports that are a significant cause of material injury through measures such as voluntary restraints.

- the United States to apply restraints unilaterally based on standards that are lower than those in the WTO Safeguards Agreement.

While the duration of this provision is still under discussion, this safeguard provides an effective and expeditious means to address injurious import surges.

D. STATE-OWNED AND STATE-INVESTED ENTERPRISES

Fourth, the Protocol will allow us to address China's unusually high degree of state involvement in the economy.

State-owned and state-invested enterprises have a greater role in China's economy than in any other major economy. As part of its WTO accession, China needs to ensure that these enterprises act on a commercial basis. Moreover, we need to ensure that we can apply WTO rules to these enterprises in a meaningful fashion.

China has agreed that it will ensure that state-owned and state-invested enterprises will:

- make purchases and sales based solely on commercial considerations, such as price, quality, availability and marketability;

- provide U.S. firms with the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

China has also agreed that it will not influence these commercial decisions (either directly or indirectly) except in a WTO consistent manner.

With respect to applying WTO rules to state-owned and state-invested enterprises, we have clarified in several ways that these firms are subject to WTO disciplines.

- Purchases of goods or services by these state-owned and state-invested enterprises are not government procurement and thus are subject to WTO rules.

- We have clarified the status of state-owned and state-invested enterprises under the WTO Agreement on Subsidies and Countervailing Measures. This will help ensure that we can effectively apply our trade law to these enterprises when it is appropriate to do so.

E. CONCLUSION

These provisions will ensure that American workers and companies can take full advantage of both U.S. law and WTO rules in their dealings with China. While much remains to be done, bilaterally and multilaterally, on reaching agreement on all of the Protocol issues, China's commitments on these important Protocol and Working Party provisions are an important step in the WTO accession process.