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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]
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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
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4. PRESS GUIDANCE (TALKING POINTS AND Q&A'S)

CEA/SDPC Dialogue and US-China Relations

U.S. Position papers:

- WTO Accession
- Most Favored Nation Status
- U.S. Sanctions on China
- China and Human Rights
- China Policy and Taiwan
- Tibet
- Hong Kong
- Export Controls and China
- US-China Nonproliferation Issues
- China and Regional Security
- China's Military Modernization
- Religious Freedom in China
- Chinese Prison labor Exports
- Three Gorges Dam Project

CEA/SDPC DIALOGUE AND US-CHINA RELATIONS

American Interests

- Constructive U.S. relations with the People's Republic of China (PRC) are fundamental to successfully addressing a wide range of issues important to the well-being and security of Americans

- The U.S. seeks a productive relationship with a secure, open, and prosperous China that is increasingly integrated into the international system and a responsible member of the international community.

Policy: Dialogue and Cooperation

- We seek productive dialogue with China on a spectrum of critical issues: global and regional security cooperation, including at the UN; arms control and nonproliferation; trade and investment; human rights; the war against drug trafficking, alien smuggling, international crime and terrorism; and protection of the environment.

- We do not seek to contain or isolate China. That course would harm our national interests, not serve them.

- This dialogue highlights the fact that we have a multidimensional relationship. We expect to expand cooperation where possible and to work seriously on areas where we have differences. No single issue should dominate the relationship.

- President Jiang made a state visit to Washington in October, the first visit by a Chinese President in 12 years. President Clinton plans to travel to China in 1998. These exchanges reflect the Administration's determination that we can best advance our long-term interests by expanding and intensifying our dialogues with Chinese Leaders at the highest levels. They do not imply approval of all Chinese Government practices or policies.

Human Rights

- Human rights are an important component of the US-Chinese relationship primarily because of the value that American's place on them. Additionally, the promotion of human rights, by encouraging the dissemination of information is important for encouraging growth and ~~preventing economic stagnation. There is a firm link between~~ human rights and economic progress and prosperity.

"I think we have to see our relations with China within the broader context of our policies in the Asian Pacific region. I am determined to see that we maintain an active role in this region...I believe this is in the strategic, economic and political interests of both the United States and China...I am persuaded that the best path for advancing freedom in China is for the United States to intensify and broaden its engagement with that nation."

President Clinton, Press Conference, May 26, 1994

President Clinton knows that managing China's emergence as a global power is one of the greatest challenges of American foreign policy. The President is meeting that challenge through a comprehensive polocy of engagement that promotes all of America's interests, whether it is deterring the proliferation of dangerous weapons, opening China's markets to U.S. exports or speaking out for human rights. His vision is clear: U.S. interests are best served by a secure stable, open and prosperous China - but also by a China that increasingly embraces international proliferation and trade rules, cooperates in regional and global peacekeeping and security initiatives and expands the rule of law and respect for the basic rights of the Chinese people. The President has acted decisively when necessary. But he has also secured Chinese cooperation on historic initiatives, such as North Korea's 1994 agreement to freeze, and eventually eliminate, its nuclear weapons program. This is a record of results that serves the interests of the United States, the Asia-Pacific region and the world.

CHINA: WTO ACCESSION

Background

- China's negotiations to join the General Agreement on Tariffs and Trade (GATT), and now the World Trade Organization (WTO), began in 1986. Though not a GATT member, China was a signatory to the Uruguay Round Final Act in 1994.

- To accede to the WTO, China must agree bilaterally with WTO members on increased market access for industrial goods, agricultural products, and services. It must also multilaterally negotiate a protocol of accession which will spell out what it will do to meet fundamental WTO principles and obligations.

- Since September, 1996, the U.S., China, and other members of China's WTO Working Party have intensified bilateral and multilateral negotiations.

- In October 1996, the Chinese announced the implementation of a "standstill," that is, China would issue no WTO-inconsistent policies during the course of the accession negotiations. In early March, China took the fundamental, market-opening step of agreeing to a phased-in liberalization of its trading regime. It also agreed to implement fully the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) upon accession.

- A short illustrative list of issues in the accession negotiations follows:

  - National treatment: imported goods are to be treated no less favorably than domestically-produced goods. This is a fundamental obligation for all WTO members. No member, large or small, has ever been allowed derogations.

  - Transparency: all trade-related laws and regulations must be published and made readily available to those engaged in foreign trade.

  - Tariffs and non-tariff measures: although it recently lowered its average tariff level to 17 percent, China's tariffs remain too high, particularly for certain industrial and agricultural products that U.S. companies would like to export. For example, tariffs on certain automobiles are 100 percent. China also maintains non-tariff measures like licensing and quotas which are inconsistent with WTO rules.

What is U.S. Policy?

- The United States supports China's accession to the WTO and integration into the world trading system. It is in the U.S. interest to see China create and implement a rules-based trade regime.

- The U.S. seeks an accession package in which China commits to adhere to fundamental WTO principles and provides new market access for U.S. industrial and agricultural goods and services. This will require elimination (in some cases, over time) of China's WTO-inconsistent restrictions on imports.

- The U.S. recognizes that China is undergoing complex economic reforms. The U.S. is prepared to be flexible and pragmatic in negotiations. However, China must make solid, commercially meaningful commitments.

- We have made some progress in the negotiations. However, the offers that China has put on the table on market access for goods, agricultural products, and services are not yet sufficient.

MOST FAVORED NATION (MFN) TREATMENT AND CHINA

Background

Nondiscriminatory, or most favored nation (MFN), treatment of trading partners is the norm in international trade -- it does not convey any special "favors" or preferences. The United States currently affords MFN treatment to virtually all countries.

With respect to U.S. law, MFN means that imports from trading partners receive the rate of duty shown in column 1 of the Harmonized Tariff Schedule of the United States (HTS). Products from countries not eligible for MFN treatment are subject to much higher rates under column 2 of the HTS. Revocation of MFN for China would mean a dramatic increase in tariffs on U.S. imports from China. The average trade-weighted MFN duty applied to U.S. imports from China is about 6 percent. Under the column 2 rates, the trade-weighted tariff rate would be about 44 percent. Because of the higher rates, U.S. imports from China would decline substantially and consumers may face higher prices for those products.

China, like some other countries, does not have unconditional MFN status. Section 126 of the Trade Act of 1974 mandates that the United States grant MFN status to all trading partners, unless otherwise provided in the Act. Title IV of the 1974 Act restricts the granting of MFN status with respect to countries that, on the date of enactment of the Act, were not eligible for HTS column 1 rates. (These were generally countries with non-market economies.) In general, these countries are eligible for conditional MFN status, provided that:

(a) they are in compliance with the freedom of emigration requirements of Sections 402 and 409, commonly known as the "Jackson-Vanik" amendment, of the 1974 Trade Act; and

(b) they have entered into a bilateral commercial agreement with the United States under Section 405 of the 1974 Trade Act providing reciprocal MFN treatment.

Presidential determinations and waivers drive the process. The President can waive the requirements for full compliance with Jackson-Vanik or make a determination that a country is in full compliance with Jackson-Vanik. In the case of China, Presidents have waived the requirements for full compliance. The decision whether to renew a waiver must be made annually. A decision to renew takes effect automatically, unless Congress passes a joint resolution of disapproval and, if necessary, overcomes a presidential veto of such resolution. As of October, 1997, other countries subject to waivers are Albania, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

If the President determines that a country is in full compliance with Jackson-Vanik, he must submit a report to Congress. Further reports must be made semi-annually in June and December. Congress can by joint resolution disapprove the initial report and the December report thereafter. A joint resolution of disapproval is subject to Presidential veto and possible Congressional override. Countries currently subject to determination that they are in compliance with Jackson-Vanik are Russia and Mongolia. Legislation to remove the application of Title IV to Mongolia is pending in Congress.

What is U.S. Policy?

The Administration, like every administration, Republican and Democrat before it, has supported continuation of unconditional MFN for China. U.S. interests are best served by integrating China into international norms and institutions. Extending to China the same normal trade treatment

CHINA AND HUMAN RIGHTS

Background

The State Department's annual China human rights reports have noted China's well-documented abuses of human rights in violation of internationally recognized norms, stemming both from the authorities' intolerance of dissent and the inadequacy of legal safeguards for basic freedoms. Abuses reported over the past two years have included arbitrary and lengthy incommunicado detention, forced confessions, torture and mistreatment of prisoners as well as severe restrictions on freedom of speech, the press, assembly, association, religion, privacy, and worker rights.

At the same time, China's economic growth since 1978 has improved dramatically the lives of hundreds of millions of Chinese, increased social mobility and expansion in the scope of personal freedom. This has meant substantially greater freedom of travel, employment opportunity, educational and cultural pursuits, job and housing choices, and access to information. In recent years, China has also passed new criminal and civil laws that provide additional safeguards to citizens. Village elections have been carried out in approximately 80% of China's one million villages.

What is U.S. Policy?

Increasing respect for human rights is a top U.S. government priority in China. The United States urges increased observance of standards set forth in the Universal Declaration of Human Rights, which China itself has recognized. The United States regularly raises human rights issues with the Chinese. We do not believe a strategy of isolating China is likely to enhance the human rights of Chinese citizens. On the contrary, economic integration with the international community enhances human rights in China. That said, we have a broad agenda that includes encouraging the rule of law, religious freedom, promotion of grass-roots democratic values, and the like. We actively promote greater respect for political and civil rights by Chinese authorities in accordance with international norms.

In our bilateral discussions, we have urged China to release or parole those detained or imprisoned for the peaceful expression of their political views or practice of religion and to allow prison visits by international humanitarian organizations. We have promoted Chinese signature and ratification the International Covenant on Economic and Social Rights (ICESR) and the International Covenant on Civil and Political Rights (ICCPR). With regard to Tibet, it is long-standing U.S. policy that China should preserve and protect the unique cultural, linguistic and religious heritage of Tibet. We have encouraged resumption of the dialogue between China and the Dalai Lama as the best way for both sides to resolve differences.

U.S. SANCTIONS ON CHINA

The U.S. maintains a number of sanctions which limit, or potentially limit, U.S. trade with China. After the 1989 Tiananmen crackdown, the U.S. suspended a wide range of trade related programs and activities and export licenses for China. Now commonly known as the "Tiananmen sanctions," most of these suspensions were later codified in section 902 of the Foreign Relations Authorization Act FY-1990-91 (section 902, P.L. 101-246). Other restrictions remain in place through executive actions. The President may lift section 902 suspensions if such action is "in the national interest." Other, more general, sanctions legislation may also restrict trade with China under certain circumstances. The following Tiananmen sanctions remain in place:

Trade and Development Agency (TDA) and Overseas Private Investment Corp. (OPIC). New activities suspended since June 1989.

Development Bank Lending/IMF Credits. The United States does not support development bank lending and will not support IMF credits to China except for projects which meet basic human needs.

Munitions List Exports. Subject to certain exceptions, no licenses may be issued for the export of any defense article on the U.S. Munitions List. This restriction may be waived upon a Presidential national interest determination.

Arms Imports. Import of defense articles from China was banned after the imposition of the ban on arms exports to China (above). The import ban was subsequently waived by the Administration and re-imposed in May 1994. It covers all items on the Bureau of Alcohol, Tobacco and Firearms' Munitions Import List.

Satellites. Satellite exports for launch from China are suspended, whether they require munitions or Commerce (dual use) licenses. Waivers may be granted upon a national interest determination.

Dual Use Exports. Licenses are generally denied for export of dual-use technology items if the end user is the Chinese police or military.

Crime Control and Detection Equipment. Licensing is suspended for crime control or detection instruments or equipment.

Nuclear Cooperation. No licenses may be issued for export of equipment or technology on the nuclear control list since 1989 under the Tiananmen sanctions. Additionally, no new approvals may be granted for transfers of Commerce licensed equipment on the Nuclear Referral List or nuclear technology licensed by the Department of Energy until the legislative requirements for implementation of the 1985 U.S.-PRC Nuclear Cooperation Agreement are satisfied.

USAID assistance, including the U.S.-Asia Environmental Partnership (US-AEP), is not subject to formal Tiananmen sanctions. However, any effort to initiate USAID programs for China would require, at a minimum, close consultations with Congress.

CHINA POLICY AND TAIWAN

Background

We believe the Taiwan question is a matter to be resolved by the people on the two sides of the Taiwan Strait. Our abiding interests are that peace and stability be maintained and that differences between the People's Republic of China (PRC) and Taiwan be resolved peacefully. The Taiwan Relations Act (TRA) and the three Joint Communiqués with the PRC together set forth the governing principles of our "one China" policy. This policy, which has been followed by successive administrations of both political parties, has been successful in maintaining peace and stability in the Taiwan Strait, even against the backdrop of major political and economic changes in Taiwan and the PRC.

What is U.S. Policy?

The general principles of our "one China" policy are expressed in the three Joint Communiqués with the PRC as follows:

-- The United States recognizes the Government of the PRC as "the sole legal Government of China."

-- The U.S. acknowledges the Chinese position that "there is but one China and Taiwan is part of China." In 1982, the U.S. assured the PRC that it has no intention of pursuing a policy of "two Chinas" or "one China, one Taiwan."

-- Within this context, the American people will maintain cultural, commercial, and other unofficial relations with the people of Taiwan.

-- The U.S. has consistently held that resolution of the Taiwan issue is a matter to be worked out peacefully by the Chinese themselves.

The August 17, 1982 Joint Communiqué -- in which the PRC stated that its "fundamental policy" is "to strive for a peaceful resolution to the Taiwan question" -- forms the basis for our understanding with the PRC that any resolution of the differences between Taiwan and the mainland must be achieved peacefully. The PRC has repeatedly reaffirmed this policy, although Beijing has refused to rule out the use of force under certain circumstances, notably if Taiwan declares independence.

The 1979 Taiwan Relations Act (TRA) forms the legal basis for our unofficial relations with Taiwan, including our continued support for Taiwan's self-defense capability. Its premise is that Taiwan's ability to maintain an adequate self-defense is conducive to maintaining peace and security while differences remain between Taiwan and the PRC. U.S. arms sales to Taiwan have been consistent with the TRA and the three communiqués. The United States will continue to provide for Taiwan's legitimate self-defense needs, while avoiding transfers of offensive weapons systems that could provoke tensions.

Consistent with our "one China" policy, we do not support Taiwan's efforts to become a member of the UN or other organizations in which membership is limited to states. We do support participation by Taiwan in other appropriate international organizations, such as the APEC forum.

TIBET

Background

The State Department's annual China human rights reports have noted instances in Tibet of death in detention, torture, arbitrary arrest, detention without public trial, lengthy detention of Tibetan nationalists for peacefully expressing religious and political views, and tight controls on fundamental freedoms. Tibetans also express concern that Chinese government policies are encouraging Han Chinese migration to Tibet. Economic development and modernization, which generally have contributed to a rising standard of living in Tibet, also have been in part responsible for the breakdown of traditional Tibetan culture. Tourism, one of the most important sectors of the modern economy, also has contributed to this trend.

The Chinese have insisted the Dalai Lama renounce independence demands before substantive dialogue can resume. The Dalai Lama heads a government-in-exile, but has stated publicly that he himself is seeking greater autonomy, not independence, for Tibet. Some progress was made in dialogue between China and the Dalai Lama and his representatives in the early and mid-1980's but this dialogue faltered after 1987. The most recent formal contact was a visit to Beijing by the Dalai Lama's brother in the summer of 1993. There are no direct discussions between the Chinese Government and the Dalai Lama at present, and no apparent prospect for the two sides to initiate discussions.

A controversy arose in 1995 between the Dalai Lama and the Chinese government over selecting the re-incarnation of the second most important Tibetan Buddhist leader, the Panchen Lama. In 1996, the Chinese government and the Dalai Lama remained far apart in their approaches to dialogue.

What is U.S. Policy?

The United States has never recognized Tibet as an independent state, nor does any other nation recognize Tibet as anything other than part of China. U.S. policy is to support respect for the human rights of all Chinese, including ethnic Tibetans. The President made a commitment in the May, 1993, Executive Order on MFN for China to work for better treatment for ethnic Tibetans in China and the protection of Tibet's unique cultural, linguistic and religious heritage. We continue to raise Tibet during bilateral exchanges with Chinese leaders and in multilateral fora such as the UN Human Rights Commission. We continue to urge the Chinese government to respect fundamental freedoms and to protect and preserve Tibet's unique religious, cultural and linguistic heritage as it formulates its policies for Tibet. We also continue to urge them to resume direct dialogue with the Dalai Lama or his representatives.

HONG KONG

Background

After more than a century and a half of British colonial rule, Hong Kong became a Special Administrative Region of the People's Republic of China on July 1, 1997. Hong Kong's post-reversion status is defined in the 1984 Sino-British Joint Declaration, which established the concept of "one country, two systems" and provided for local rule with a "high degree of autonomy." Under the Joint Declaration, Hong Kong will govern itself in local matters and will remain autonomous in social, economic, and cultural affairs for at least fifty years. Hong Kong's court system and government will remain intact, but China will assume responsibility for defense and foreign affairs.

The United States has a strong interest in a successful transition. U.S. trade, investment, and business with Hong Kong flourish in a virtually barrier-free environment. Our exports to Hong Kong, many of which are re-exported to China, total over $14 billion; our two-way trade is over $24 billion. U.S. companies have almost $16 billion of investment in Hong Kong, and some 1,100 U.S. firms maintain offices there. About 50,000 American citizens live and work in Hong Kong. U.S. Navy ships visit Hong Kong at the rate of 60-80 port calls per year. Cooperation between Hong Kong and U.S. law enforcement agencies makes a real difference in our efforts to combat drug trafficking, illegal alien smuggling, organized crime, and counterfeiting. U.S.-Hong Kong treaties facilitating extraditions, prisoner transfers, and mutual legal assistance are currently pending U.S. Senate ratification.

Hong Kong also has a critical role in China's future well-being: it is the source of 60% of China's foreign capital, the gateway for half of the PRC's exports, the source of professional and technical expertise, and a test of Beijing's ability to implement the "one country, two systems" model for reunification. PRC investment in Hong Kong has risen dramatically to over $20 billion at the time of reversion.

What is U.S. Policy?

Our policy toward Hong Kong is grounded in a determination to help preserve Hong Kong's prosperity and way of life. We strongly support the Joint Declaration. It provides a sound basis for a smooth transfer of sovereignty and a rational framework for continued stability and prosperity. Specific transition arrangements have been matters for the UK and China, but the United States has played a strong supportive role in order to protect American interests. While recognizing that Hong Kong is now part of China, the 1992 U.S.-Hong Kong Policy Act created domestic legal authority to treat Hong Kong as a non-sovereign entity distinct from the PRC. This accepts and reinforces the Joint Declaration concept of "one country, two systems."

Thus far, the Hong Kong transition has been smooth. Hong Kong remains stable and prosperous. The local political atmosphere remains open and lively, the press continues to operate freely, and political demonstrations take place frequently and without restrictions. Beijing has taken conscious steps to prevent Chinese authorities from meddling in local matters and thereby impinging on Hong Kong's local autonomy.

Chief Executive C.H. Tung, a former businessman with substantial experience bridging Western and Asian cultures, deserves much of the credit for the smooth transition. His Administration enjoys widespread support among the Hong Kong people

Hong Kong's next major political event will occur in May 1998, when legislative elections will be held. The composition of Hong Kong's legislative body, the Legislative Council ("Legco"), was a major source of controversy between the British and Chinese governments in the run-up to the handover. In response to what it deemed unpalatable British reforms, China created a Provisional Legislature (PL) immediately after the resumption of Chinese sovereignty to replace Legco. The United States considers creation of the PL unnecessary.

The United States has nonetheless urged new Legco elections as soon as possible. In September 1997, the Provisional Legislature approved election rules legislation proposed by Tung. Under the Tung bill, the 1998 election will return a body less representative than the legislature elected in 1995, but considerably more representative than any Hong Kong legislature serving prior to September 1995. The United States criticized the Tung bill prior to its passage for proposing to reduce voter representation in Legco. Now that the bill has become law, however, the U.S. role is to continue emphasizing our human rights concerns while encouraging a free, fair, and fully representative election.

EXPORT CONTROLS AND CHINA

Background

The U.S. export control system is divided into several regimes. Munitions items are controlled under the Arms Export Control Act; nuclear material, equipment and technology are controlled under the Atomic Energy Act; and dual use items are controlled under the authority of the Export Administration Act and the International Emergency Economic Powers Act. The State Department licenses munitions list exports, the Nuclear Regulatory Commission and Energy Department control nuclear exports, and the Commerce Department is responsible for licensing dual use exports.

The majority of U.S. exports to China occur without the need for a license application to the U.S. Government. The majority of those which do require license applications are approved. However, Tiananmen sanctions prohibit the issuance of licenses for the export of defense articles (except in cases determined to be in the national interest), prohibit the licensing of exports of crime control equipment to China and block the export of commodities that could help the Chinese build or maintain nuclear reactors. It is also U.S. policy not to license exports of dual-use technology items, if the end user is the Chinese police or military.

We have with some success encouraged China to strengthen its export control systems. We engage the Chinese on non-proliferation and export control issues frequently and at all levels. In recent years, China has acceded to the Non-Proliferation Treaty (NPT), joined the NPT exporters committee known as the Zangger Committee and signed the Chemical Weapons Convention. We are encouraging China to expand its controls to cover precursor chemicals and related production equipment controlled by the Australia Group. China has stated it would adhere to the original guidelines and parameters of the Missile Technology Control Regime (MTCR).

What is our policy?

U.S. export control policy towards China is aimed at supporting our overall policy of engagement with China and promoting creation of high-paying, export-based jobs in the U.S., while denying licenses for exports that could contribute to activities of potential national security concern to the United States. Although China has blamed U.S. export controls for a large part of our trade deficit with China, we cannot detect statistically meaningful effects of U.S. export regulations on our trade deficit.

In discussions with China, we have worked to bring China's export control policies and behavior in line with international non-proliferation norms. This means stopping questionable transfers of sensitive technologies, establishing comprehensive export controls, and membership in international export control regimes.

We seek to cooperate with China in strengthening national export control mechanisms that would enable the Chinese government to more effectively ensure that exports by Chinese entities fully conform to China's national policies and international commitments.

U.S.-CHINA NONPROLIFERATION ISSUES

Background

As a major producer of nuclear, chemical, and missile-related equipment, materials and technology, China has a responsibility to subscribe to internationally accepted nonproliferation standards, and its cooperation is essential to full achievement of our regional and global nonproliferation objectives.

China has taken substantial steps to strengthen its nonproliferation policy. China joined the International Atomic Energy Agency (IAEA) in 1984, and since then has supported the indefinite extension of the Treaty on the Nonproliferation of Nuclear Weapons (NPT), signed and ratified the Chemical Weapons Convention, adhered to the Biological Weapons Convention, signed the Comprehensive Test Ban Treaty, and agreed to seek an international ban on production of fissile nuclear weapons material. China has committed not to export ground-to-ground MTCR-class missiles, has played a helpful role in the Korean peninsula Agreed Framework arrangement, and has committed not to assist unsafeguarded nuclear programs. In September 1997 China issued detailed nuclear export control regulations.

What is U.S. Policy?

Despite these positive steps, which bring China's nonproliferation policies closer to international standards, we continue to have concerns about Chinese exports of arms and sensitive goods and technologies. Our policy is to continue to seek China's adherence to its international commitments ar to implementation of effective export controls on sensitive technologies and controlled materials. At same time, we will impose applicable sanctions when facts warrant and sufficient standards of evider are met. This approach is key to achieving our goal of preventing the spread of all weapons of mass destruction and their delivery systems.

- Our policy has led to positive developments in important areas:

-- Intensive discussions with China after the transfer of ring magnets to Pakistan's nuclear program led to China's May 1996 commitment not to assist unsafeguarded nuclear facilities and agreement to continue consultations on export control policies and related issues. Several rounds of experts talks on nuclear export controls since 1995 have helped to develop a common understanding on building effective export control policies and practices and strengthening national export control systems. As a result, China attended the May 1997 meeting of the NPT Exporters (Zangger) Committee as an observer, and became a full member in October 1997.

-- Although China's nuclear cooperation with Iran is not directly applicable to nuclear weapons development and is subject to IAEA safeguards, we oppose all nuclear cooperation with Iran because of the risk that such cooperation will contribute to nuclear weapons development in Iran. In 1995, China decided to suspend its agreement to supply Iran with two nuclear power reactors. We do not believe China would knowingly assist Iran to acquire a nuclear weapons capability.

-- We imposed sanctions on Chinese entities in 1993 for the sale of missile equipment to Pakistan. We waived the sanctions in 1994 after China agreed not to export ground-to-ground MTCR-class missiles and reaffirmed its previous commitments to abide by the MTCR Guidelines and parameters. We will continue to discuss MTCR issues with China and urge it to live up fully to its 1994 commitments.

-- We are also concerned about transfers of chemical-related goods from Chinese entities to Iran. In May 1997 we imposed sanctions on seven entities and individuals for knowingly and materially contributing to Iran's chemical-weapons program. China's adoption of chemical-weapons export control regulations in accordance with requirements of the Chemical Weapons Convention is a positive development, which we hope China will carry further in line with the standards of the Australia Group.

CHINA AND REGIONAL SECURITY

Background

China's size and growth ensure that its already significant role in East Asian security calculations will become larger in the years to come. China is a nuclear power with a large standing army and a history in the 1960s of supporting insurgencies in neighboring countries. Its military modernization aims at greater professionalism, upgraded aerial, naval and missile capabilities, and a rapid-deployment force. Its economic modernization will increase its economic impact and enhance its political influence and potential to project military power.

In the late 1970s Deng Xiaoping placed economic development at the top of China's agenda. China's foreign policy since then has been a function of this domestic priority, and is designed to create conditions that will attract foreign investment and trade. Beijing in recent years has thus been seeking to improve relations with its neighbors. It has normalized relations with South Korea and has resolved Mao-era boundary disputes, which had occasioned hostilities, along its extensive boundary with Russia. In 1996 and 1997 China signed five-party agreements with Russia, Kazakhstan, Kyrgyzstan and Tajikistan on confidence-building measures and force adjustments along common borders. The PRC has worked to settle similar disagreements with its southern neighbors. China and India have made joint troop withdrawals in contested areas. PRC-Vietnam working groups have made some progress on disputed portions of their land border.

China continues to maintain significant territorial claims that conflict with those of other countries in the region. The PRC claims sovereignty over the Spratly and Paracel Islands in the South China Sea. After China's occupation of Mischief Reef provoked sharp reactions from ASEAN Neighbors, China subsequently participated in multilateral and bilateral discussions with ASEAN nations on the South China Sea territories. Beijing publicly declared its intention to apply international law to such disputes, and its desire to pursue joint commercial development of the area pending resolution of competing territorial claims.

What is U.S. Policy?

U.S. security policy in the Asia Pacific region is derived from President Clinton's vision of a Pacific Community based on "shared strength, shared prosperity, and shared values." Engagement with China is key to achieving this vision. China's size, growing economic and political clout, and military strength make it essential to fundamentally integrate China into the evolving framework of East Asian and Pacific regional security.

The United States seeks to increase China's regional integration. The U.S. has thus encouraged China to take an increasingly active role in regional security dialogues and issues. This approach has yielded tangible benefits. Beijing helped to obtain North Korea's compliance with the U.S.-DPRK Agreed Framework, which halted Pyongyang's nuclear weapons program, made possible the Four Party (U.S.-China-DPRK-South Korea) Talks, and participated in efforts to promote peace and stability in Cambodia. China hosted a January 1996 meeting of the Northeast Asia Cooperation Dialogue (NEACD) and co-hosted a March 1997 meeting on confidence-building measures under the auspices of the 21-member country multilateral ASEAN Regional Forum (ARF). The PRC has cooperated with the United States on policy toward a nuclear-weapons-free zone in Southeast Asia. We welcome these steps and will continue and broaden such dialogues, seeking to expand our common ground and address directly our differences.

CHINA'S MILITARY MODERNIZATION

Background

China is modernizing its forces, but they do not pose a serious threat to the superior U.S. forces available in the region, nor will they for the foreseeable future. The Chinese military is trying to transform itself from a land-based power, centered on a vast ground force, to a smaller, mobile, high-tech military, but has a long way to go. Since 1985, China has reduced military personnel by 1 million, to a total of 3 million today. Another reduction of 500,000 is underway. Official defense budget increases in the 1990s offset inflation and low spending during the 1980s, and were largely devoted to improving the quality of life for personnel. However, the official budget figure does not include off-budget funding, notably for purchases of foreign technology. Total spending is estimated to be $40-50 billion annually.

Most of China's weapons technologies are 30-40 years behind the United States. China's power-projection capability is limited. China has recently acquired some advanced weapons systems, including SU-27s and Kilo-class diesel submarines, from Russia. Despite these acquisitions, the mainstay of the air-force continues to be the 1960s-vintage F-7, and naval forces still consist mainly of 1950s- and 1960s-era technology.

What is U.S. Policy?

- Engagement, including military-to-military contacts, is important to understanding Chinese military acquisitions and perceptions, and avoiding miscalculations. Military-to-military contacts help us understand China's intentions and ensure they are clear about ours. These contacts have produced concrete benefits, including agreement on procedures which would allow continued U.S. Navy port calls to Hong Kong after reversion; discussions aimed at enhanced communication between our military institutions, designed to reduce miscalculations and accidents between operational forces; and exchanges of naval ship visits, which serve as confidence-building measures between operational forces.

Engagement also gives China incentives to play a positive role in regional and global issues. Twenty-five years ago China was isolated and played an unhelpful role in virtually all regional and global issues. This included support for groups seeking to subvert U.S. friends and allies in the region. In contrast, China's recent involvement in a range of security issues, including halting North Korea's nuclear weapons program, participating in the Four Party Talks, bringing peace to Cambodia, and engaging in such multilateral security dialogues as the ASEAN Regional Forum (ARF), has been constructive. China has declared its intention to apply international law to disputes over South China Sea territories and affirmed its desire to pursue joint commercial development pending resolution of competing territorial claims.

RELIGIOUS FREEDOM IN CHINA

Background

The Chinese constitution guarantees freedom of religion. The number of religious adherents is growing rapidly in both the registered and unregistered churches, but the government seeks to restrict all practice to government-sanctioned, registered organizations and places of worship. Underground associations do exist, but unregistered groups in some areas were subjected to increased restrictions. "Underground" mosques, temples, and seminaries and of Protestant "house church" groups were closed; some were destroyed. Some members of such groups have been subject to harassment or detained for lengthy periods. The government has restricted the practice of Tibetan Buddhism where the government perceives links to Tibetan independence efforts. The government has also sought to limit the activities of unregistered Catholic groups, particularly in Hebei province.

Religious observances in China are varied and widespread.

- The official Protestant church estimates a baptized membership of over 10 million today, compared with 3.8 million in 1987, and less than a million in 1949. Church officials and foreign observers say official church membership is growing at a rate of 2,000 converts and two to three churches a day. Today there are some 12,000 churches (compared to 7,000 in 1991) and 25,000 registered "house" churches and meeting places. Additionally there are perhaps 30 million Chinese worshipping in an unknown number of unregistered "house" churches.

- The official Protestant Chinese Christian Council includes many denominations, including Baptist, Anglican, Methodist, Presbyterian, Pentecostal, etc. Many churches have turned into full-service institutions with Bible studies, prayer meetings, women's groups and choir practice.

- Catholic Church membership, both registered and unregistered, is also rising. The "underground" or non-sanctioned, Vatican-affiliated Catholic Church claims a membership much larger than the membership of the official Chinese Patriotic Catholic church, which is estimated at four million persons.

- Reflecting the rise in religious adherents, the Chinese government oversaw the publication of over 3 million Bibles in 1996, triple the level in 1995.

- In addition to adherents of Christianity, the Chinese government estimates there are 100 million Buddhists and 17 million Muslims in China.

What is U.S. Policy?

The President and Secretary Albright have stated that protection of freedom of religion is a priority human rights concern for the U.S. That concern is communicated often to China through governmental channels. The Administration continues to promote religious freedom in China. The State Department's annual China human rights report includes a frank assessment of religious conditions in China, and urges Chinese authorities to fully respect the freedom of conscience of Chinese citizens. Similar statements are found in our annual statement on religious tolerance at the UN Human Rights Commission and the release of a public report on persecution of Christians around the world. In addition, the Secretary's Advisory Committee on Religious Freedom Abroad focuses on freedom of religion in every country, including China.

CHINESE PRISON LABOR EXPORTS

Background

U.S. law prohibits the importation of goods produced with prison labor. In the early 1990s, in response to charges that Chinese political prisoners were being used to produce goods for export to the United States, U.S. Customs and the State Department began investigating allegations concerning imports of prison labor-produced goods. Compulsory labor is an intrinsic part of the Chinese penal system. However, since 1990, export of goods produced in prisons has been illegal under Chinese law.

In 1992, the Administration negotiated and signed a Memorandum of Understanding (MOU) with the PRC to facilitate inspections of Chinese prisons. The MOU allows for inspections of Chinese prison facilities by a U.S. Embassy officer, upon request, to establish the origin of alleged prison-produced products imported into the U.S. Unsatisfactory implementation and differing interpretations of the MOU led us in 1994 to conclude a Statement of Cooperation (SOC) which tightened procedures for investigations and visits under the terms of the MOU. These agreements represent a public commitment by the Chinese to work with the United States to enforce our laws concerning the import of goods manufactured by prison labor. China is the only nation that has made such a commitment.

We are working to improve Chinese cooperation, which has varied over time. Information from the Chinese has helped customs investigators. Our Customs Attaché in Beijing has submitted 58 referrals for investigation since 1992; the Ministry of Justice has responded with information on 52. Customs has also been allowed to conduct 13 visits involving 12 facilities. Most recently, in November, 1997, our Customs Attache in Beijing was allowed to visit 3 Chiense facilities suspected of using prison labor, one without prior arrangements. He found no evidence that prison labor was being used to produce products for export. Under the MOU, we have also been able, in at least two cases, to win U.S. Court convictions of defendants accused of importing prison labor products.

What is U.S. Policy?

We continue to communicate to Chinese officials our concern that compliance under the MOU be timely, consistent, and independent of other events in our bilateral relationship. Our efforts are concentrated on strengthening the existing agreements by increasing the willingness of the Chinese to cooperate with us under the existing MOU and SOC. Steady and determined diplomacy by the Embassy, solid investigations by U.S. Customs, and the relationships our officials develop with their Chinese counterparts will give the best results.

THREE GORGES DAM PROJECT

Background

China has begun construction of the massive Three Gorges Dam on the Yangtze River in Hubei Province. When completed in 2009, its 18,200 megawatt capacity will make it the largest hydroelectric project in the world. Diversion of the river is planned for November, 1997, after which construction of the two-kilometer dam will proceed. The project is expected to cost at least $25 billion. Premier Li Peng, an electric power engineer by training, championed this project through years of sometimes bitter domestic debate. The Chinese government believes that in addition to providing renewable energy, the dam will improve river navigation and control periodic flooding of the lower Yangtze River, saving thousands of lives and reducing property losses. However, the project has drawn criticism because of its potentially serious adverse environmental impact, and some international experts question whether it can achieve its goals.

The U.S. worked intermittently with China on hydroelectric development from the 1940s until 1993. The U.S. Bureau of Reclamation was involved in the initial design of the Three Gorges project, but halted its cooperation in 1993 because of changing U.S. attitudes and policies on water resource management and environmental concerns. In September 1995, the National Security Council recommended that the U.S. government refrain from providing financial support for the project due to continuing environmental, legal, financial and humanitarian concerns, including the involuntary resettlement of the over one million people who would be displaced by the project's reservoir.

In May, 1996, the Board of the U.S. Export-Import Bank withheld Letters of Interest to three U.S. exporters based on its independent review of the environmental effects of the project. By statute, the Bank may withhold project financing because of adverse environmental effects. China contended it was addressing environmental concerns, but Ex-Im concluded it did not have enough information on questions relating to water quality of the reservoir, protection of ecological resources - including rare and endangered species - and the environmental and socioeconomic impact of the resettlement project. At the request of the Three Gorges Power Development Corporation, in July, 1996, Ex-Im Bank sent a letter detailing the environmental information it would need to be able to address its concerns. The information it requested is similar in nature to that required of any major hydroelectric plant. The Bank periodically receives additional environmental information, but this data has not completely addressed its concerns. Ex-Im Bank stands ready to review information which would address the points set forth in its July, 1996, letter. Other nations, including every other G-7 member country, have provided financing for the Three Gorges project. However, the World Bank and Asian Development Bank have not provided funding for the project because of environmental and technical concerns.

The first large procurement of electromechanical equipment was awarded in August, 1997, to consortia consisting of various European, Canadian and Japanese suppliers. In October, 1996, one U.S. company was awarded a contract for construction equipment without Ex-Im Bank financing.

What is U.S. Policy?

The U.S. maintains a neutral position on China's decision to proceed with construction of the Three Gorges Dam, and there are no restrictions on U.S. company participation in the project. U.S. companies are involved in the project, based in part on non-American financing, and U.S.-made equipment is evident at the Three Gorges Dam construction site.

5. MEETING WITH SDPC

6. MEETING WITH MINISTER OF FINANCE

7. MEETING WITH PEOPLES BANK GOVERNOR

8. MEETING WITH STATE ECONOMIC AND TRADE COMMISSION

9. MEETING WITH ZHU RONGJI

~~CNF~~ Checklist of Key Issues (Meeting with Chinese Premier Zhu Rongji)

Cable: Premier Zhu Rongji's March 19 Press Conference

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OF CLASSIFIED ATTACHMENTS
Initials: VL Date: 1/30/2012
2010-1024-F

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. cable	re: Premier Zhu Rongji (4 pages)	03/19/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
Council of Economic Advisors

OA/Box Number: CF 2019

FOLDER TITLE:

Copy of M. Hopkins Briefing Book - China [4]

2010-1024-F
vz1779

RESTRICTION CODES

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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]

10. ROUNDTABLE WITH CCER ECONOMISTS

11. MEETING WITH PBOC VICE GOVERNOR

12. MEETING WITH SHANGHAI STOCK EXCHANGE PRESIDENT

13. MEETING WITH EXPATRIATE BANKERS AND FINANCIAL EXPERTS

14. MEETING WITH MAYOR OF SHANGHAI

15. MEETING WITH HONG KONG MONETARY AUTHORITY CHIEF EXECUTIVE JOSEPH YAM

16. MEETING WITH HONG KONG CHIEF EXECUTIVE C.H. TUNG

17. HONG KONG ORGANIZATIONS

AMERICAN CHAMBER OF COMMERCE

BETTER HONG KONG FOUNDATION

Background Information on The Better Hong Kong Foundation

VISION 2047

Background Information on The Vision 2047 Foundation

The Better Hong Kong Foundation was launched on the 25th September 1995. It is a privately-funded, non-profit making, apolitical organisation, formed by leading business people in Hong Kong to instil and encourage confidence in Hong Kong and internationally in the transition of sovereignty of Hong Kong to the People's Republic of China in July 1997. While undertaking its own initiatives it will also complement the activities of the Hong Kong Government and other interest groups in Hong Kong.

Mission Statement | Our Perspective | Key Initiatives | Press and News | About the Foundation

Home | Hong Kong Heart of Asia | Hong Kong Business Links | 1997 & Beyond | Perception & Reality | Guest Book

MISSION STATEMENT

Mission Statement

ONE COUNTRY, TWO SYSTEMS, ONE WORLD

A Perspective From the Better Hong Kong Foundation

Since its founding in September 1995, the Better Hong Kong Foundation's mission has evolved from instilling business confidence in the territory to facilitating communication between Hong Kong and China and the international community.

The Foundation is a privately funded, non-profit, non-political organization, formed by leading Hong Kong business people. The Foundation believes that the transition of Hong Kong to Chinese sovereignty on July 1, 1997, creates opportunities not only for business investment in Hong Kong and China, but also for greater international understanding between the East and the West.

Economic confidence in Hong Kong's future has been growing day by day. Hong Kong's economic growth continues apace at four percent per annum. The Hong Kong Stock Exchange remains one of the best performing stock markets in the world. Real estate prices in Hong Kong are higher than they have ever been. Foreign currency reserves are abundant and major infrastructure improvements provide continuing testimony to the ambition and drive of the community.

But the coming together of one of the world's most prosperous international trading and financial centers with the world's most populous nation offers more than just economic advantages.

The transition of Hong Kong's sovereignty to China offers a lens through which to view the lessons of the past. It is occurring at a time when ideological fears have subsided around the world and the prospects for global cooperation have never been brighter. It is occurring at a moment in history when the developed world has a unique chance to foster the stability, direction and growth of the emerging world in the shared pursuit for prosperity for all.

The Foundation believes that Hong Kong's best interests are served by supporting China's continued emergence not only as an economic power but as a respected and responsible member in the international community.

To that end, we seek to facilitate greater communication between politicians, government officials, journalists, trade associations, corporations and academics in Hong Kong, mainland China and overseas.

We will continue to act as the convenor and facilitator of Hong Kong and mainland China delegations to other countries. Conversely, we will also continue to act as the host for international delegations to Hong Kong and mainland China. Our initiatives are non-partisan.

The Foundation is not only committed to the "two systems" envisioned in the Basic Law, but we are also committed to "one country". We support Mr. C. H. Tung, the First Chief Executive of the Hong Kong Special Administrative Region, and his vision of a Hong Kong run by Hong Kong people.

The Foundation believes that Hong Kong has a critical role to play in sharing its expertise and global perspective with mainland China. We have an equally important role to play in helping China communicates its point of view to the West. We view Hong Kong as a window for mainland China to the rest of the world. Although our economies have been intertwined for only two decades, we have blood ties that go back hundreds, and thousands of years. We are conscious of that heritage and proud to reaffirm it at the dawn of the 21st Century, which some people are already calling the "Pacific Century".

Home | Hong Kong Heart of Asia | Hong Kong Business Links | Perception & Reality | 1997 & Beyond | Better Hong Kong Foundation | Guest Book

Overview | Our Perspective | Mission Statement | About the Foundation | Press and News Updates

Hong Kong: The 'Unique Idea' Will Continue to Grow for Generations to Come

A Local Perspective from The Better Hong Kong Foundation

Hong Kong plays many parts on the world stage: financial centre of Asia; focal point for global commerce; and exotic tourist destination. Because of these and other unique qualities, and because it remains a multicultural marvel of international cooperation, Hong Kong engenders a sense of ownership among everyone who visits, everyone who conducts business in it or through it, and everyone who values the free marketplace at its best.

To all those around the world who cherish the fundamental concepts - free trade and free enterprise - of Hong Kong, it may be helpful to hear a local perspective on Hong Kong's future. People in Hong Kong believe that Hong Kong became what it is through a combination of forces that will continue undiminished long after July 1, 1997: entrepreneurial spirit; productivity and hard work; and respect for property and the rule of law. These fundamental forces will enable Hong Kong to continue to shine because China and the people of Hong Kong are committed to making it so.

After all is said and done, the reality is: the success of Hong Kong will depend in large measure on three factors: the goodwill of the authorities in China; the commitment of Hong Kong's own people to make it work; and the international community's willingness to recognize that it is just possible that Hong Kong's brightest days lie ahead.

China - through formal agreements and continual reinforcement by senior government officials - has stated categorically that the basic goodwill to implement the Basic Law governing Hong Kong's future genuinely exists in Beijing. Indeed, many aspects of the economic and commercial integration have already been completed.

As for the people of Hong Kong, those who built this shining city and made it the "Pearl of the Orient," they have never forgotten that Hong Kong is, first and foremost, their home. Nobody cares more about Hong Kong's future than 6 million residents who call Hong Kong home. Although one hears many points of view, as in all free societies, Hong Kong's people are taking an increasingly constructive position with respect to their future as part of China.

The international community is more an unknown. As the spotlight focuses more and more on Hong Kong during the runup to July 1, 1997, it will be refracted according to differing perspectives on China, and the growing economic power of the Asia / Pacific region.

A new organization came into being in late 1995 to address the questions and concerns of these three essential constituencies. Its purpose is expressed in its name: The Better Hong Kong Foundation - it is for Hong Kong; it is reinforcing the foundation for Hong Kong's future.

The Foundation is nonprofit, privately funded and apolitical. Formed by leading business people in Hong Kong, the Foundation seeks to instill and encourage confidence in Hong Kong during and after 1997. Its initiatives range from sponsoring programs to enhance understanding of Hong Kong's economic future, to sponsoring community programs that built esprit de corps in the local community.

The Foundation also serves as a vehicle for enhancing two-way communication between Hong Kong and mainland China during the transition. In January, a delegation of Foundation members met with senior Chinese officials, including Premier Li Peng, Vice Premier Zhu Rongji, Minister of Foreign Trade and Economic Cooperation Wu Yi, and People's Bank of China Governor Dai Xianglong. The Foundation members offered wide-ranging recommendations and concerns for consideration in Beijing, and received strong assurances that China's leadership has every intention of maintaining the one-country, two-systems model spelled out in the Basic Law.

The one-country, two-systems principle means that within the one country "China umbrella," China will continue its socialist, centrally planned economic system while Hong Kong will continue to practice its existing capitalist system. The existing legal system and the way of life in Hong Kong will remain unchanged after 1997.

The discussions with China's leadership convinced Foundation members of China's commitment to the principle of Hong Kong people governing Hong Kong after 1997.

To address the concerns of the international community, the Foundation has embarked on a wide-ranging program to raise the awareness of Hong Kong's importance in the global economy and to build confidence in the provisions of the Sino-British Agreement and the Basic Law and other policies that are designed to facilitate Hong Kong's status as a Special Administrative Region of China after July 1, 1997.

The Foundation's work is based on the premise that the more informed the international business community is about the one-country, two- systems principle, and how it is actually unfolding, the better the prospects for its outcome.

The Foundation's members play an integral role in the fabric of daily life in Hong Kong and have a strong stake in building on Hong Kong's strong sense of community. 1997 represents a new era for Hong Kong, and community life is evolving, not ending. Hong Kong 's success results from the contributions of millions of Hong Kong people working hard and working together. That's the spirit that has made Hong Kong an excellent place to raise a family and build a life and that spirit will endure and grow stronger in the years to come.

ABOUT THE FOUNDATION

The Board of Trustees

The Trustees will:

- Provide the financial support;
- Oversee and manage the Foundation;
- Set the vision, aims and goals of the Foundation.

The Trustees have a wide range of business which includes: property development, communications, retail and manufacturing, hotels and entertainment, and infrastructure development. Their combined investment in Hong Kong totals some US$80 billion.

Dr. Stanley Ho

Mr. Sumet Jiaravanon

Mr. Li Ka Shing

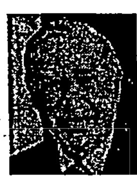
Mr. Lim Por Yen

Mr. Dennis T.L. Sun

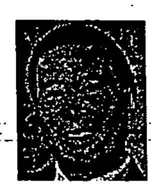
Mr. Tsang Hin Chi

The Bank of East Asia, Ltd.
Mr. David K.P. Li

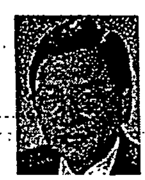
Hang Lung Dvmt Co. Ltd.
Mr. Ronnie Chan



Harilela Hotels Ltd.
Dr. Hari N. Harilela



Henderson Land Dvmt Co.Ltd.
Mr. S.K. Lee



HKR International Ltd.
Mr. Payson Cha

Hysan Dvmt Co. Ltd.
Mr. H.C. Lee

Kerry Holdings Ltd.
Mr. Kuok Khoon Chen

Kumagai Gumi (H.K.) Ltd. **Mr. C.P. Yu**	Lam Soon Hong Kong Grp. **Mr.Raymond Chien**	Nan Fung Dvmt Ltd. **Ms. Vivien W. Chen**





New World Dvmt Co. Ltd. **Dr. Cheng Yu Tung**	The Shaw Foundation H.K. Ltd. **Sir Run Run Shaw**	Sino Group **Mr. Robert Ng**	Sun Hung Kai Properties Ltd. **Mr. Walter Kwok**	Wheelock & Company Ltd. **Mr. Peter Woo**

The Advisory Council

The Foundation is governed by an Advisory Council chaired by prominent businessman, Mr. Henry Cheng, Managing Director of New World Development Co. Ltd.

The role of the Advisory Council, in which all Trustees are eligible to participate, include:

- Reinforcing the Foundation's goals and objectives;
- Drawing up policy guidelines for initiatives and work programmes to be undertaken by the Foundation;
- Controlling the Foundation's budget.

Advisory Council Members

Mr. Payson Cha	Mr. Ronnie Chan	Ms. Vivien W. Chen	Mr. Henry Cheng
Mr. Raymond Chien	Mr. Aron H. Harilela	Ms. Pansy Ho	Mr. Kuok Khoon Chen
Mr. Walter Kwok	Mr H.C. Lee	Mr. Peter K.K. Lee	Mr. David K. P. Li
Mr. Victor Li	Mr. Winston Lo	Prof. Ma Lin	Mr. Dennis T.L. Sun
Mr. Ricky C.M. Tsang	Mr. Stephen K.C. Wong	Mr. Peter Woo	Mr. K.Y. Yeung
Mr. S.S. Yeung	Ms.Lulu Yu		

The Executive Committee

The Executive Committee is chaired by Mrs. Nellie Fong, Deputy Managing Partner of Arthur Andersen & Co. Hong Kong and China.

The functions of the Executive Committee are:

- To oversee and implement the Foundation's initiatives and work programmes;
- To ensure the Foundation's objectives are achieved;
- To exercise budget control over individual activities.

Executive Committee Members

Mr. Ronnie Chan	Mr. S.Y. Chan	Mrs. Nellie Fong	Mr. Aron H. Harilela
Mr. K.C. Ho	Mr. John Hung	Mrs. Cissy Lam	Ms. May Lau
Mr. Peter K.K. Lee	Mr. Peter T.C. Lee	Mrs. Jeanette Lo	Mr. Siri Manavutiveth
Mrs. Betty Sun	Mr. Ricky C.M. Tsang	Mr Carson Wai	Mr. K.Y. Yeung
Ms. Lulu Yu			

Secretariat

The Foundation is run on a day-to-day basis by a full-time Secretariat headed by Mr. George Yuen, former Assistant Director of Government Information Services.

VISION 2047 FOUNDATION

Committed to the Future of Hong Kong

Founded in 1989, Vision 2047 Foundation is non-profit, privately funded and has no affiliation with any government bodies or political parties in Hong Kong or elsewhere. The Foundation is accredited by the Ethics Committee of the United States Congress as an organization authorised to sponsor US elected officials and their staff on educational exchanges to countries outside of the United States.

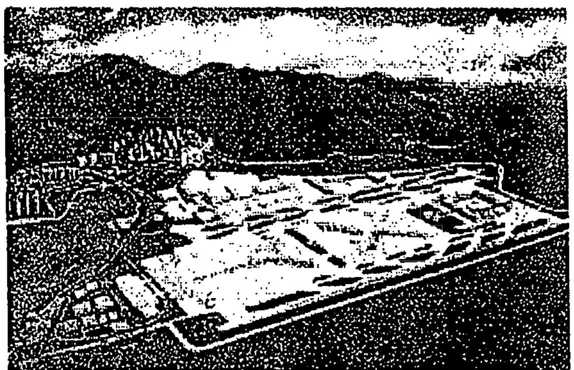
Vision 2047 does not take an institutional position on issues that affect Hong Kong and encourages a diversity of views among its membership. Members do not speak on behalf of the Foundation on matters of public policy.

The Foundation derives its strength from its membership comprising leaders in business and the professions in Hong Kong. Members span a variety of nationalities and ethnicities. All are long term residents of Hong Kong and are committed to remaining in Hong Kong after 1997. Members contribute time, effort and resources to fulfill the Foundation mission on a voluntary basis.

Send us an E-mail

VISION 2047 FOUNDATION

Committed to the Future of Hong Kong



Hong Kong's new airport, due to open in the first half of 1998

ACCOMPLISHMENTS

China Program
US Congressional Visit Program
Members' Delegations
Meeting Program
Journalists' Visit Program
Special Research Commissioned

China Program

Strengthening ties and mutual understanding between Hong Kong people and the People's Republic of China

- Regular dialogue with senior Chinese officials, regular meetings with Hong Kong-based representatives of PRC institutions.
- Sponsorship of April 1995 conference in Beijing, "Law and China's External Economic Relations" convening legal experts from China, Hong Kong and the USA for an in-depth assessment of the progress made and needed in the development of China's foreign trade and investment laws and regulations. Arranged in cooperation with the Western Returned Scholars Association (Beijing), the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), and The 1990 Institute (San Francisco).

U.S. Congressional Visit Program

Promoting more informed decision making by American legislators on issues of concern to Hong Kong and China

- Sponsorship of visits to Hong Kong & China by U.S. Senators, Congressional Representatives and staff members.*
- Participants include members of Congress serving on trade-, Asia- and foreign

affairs-related committees with policy impact on Hong Kong and first-term members unfamiliar with Asia.

- Provides U.S. politicians and government officials visiting Hong Kong with a broad spectrum of public & private sector views on Hong Kong's economic & political relationships with China, Asia, U.S. and the rest of the world.
- Strong recognition and reputation in Washington as a Foundation providing a well planned, in-depth educational program.

** Accredited by the Ethics Committee of the United States Congress as a non-political, private host organization.*

Members' Delegations

A complementary program to provide direct input to policymakers in the two countries that most significantly impact the future of Hong Kong

- Regular, self-funded visits by Foundation members to Beijing and Washington for discussions with policymaking communities affecting Hong Kong.
- Nurturing strong relationships facilitates all aspects of the Foundation's work.

Meeting Program

Two way exchanges in Hong Kong to "inform and be informed"

- Over 500 frank, off the record meetings with local and overseas opinion leaders in business, the professions, academia, think tanks and government organizations and others from Hong Kong, North America, Asia and Europe affecting policy in and toward Hong Kong up to twice a week.

Journalists' Visit Program

Media shapes the views of senior business and government leaders worldwide

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Hong Kong into 21st Century

The Hong Kong Advantage: A Study of the Competitiveness of the Hong Kong Economy

- Introduction by TDC Chairman Dr Victor Fung
- Executive Summary of the Study

The Hong Kong Advantage: Introduction

by
Dr Victor Fung
Chairman, Hong Kong Trade Development Council

Hong Kong's competitiveness, dynamism, and flexibility are world renowned. Authoritative surveys such as the World Competitiveness Report and the Heritage Foundation's Index of Economic Freedom recount it year after year. It is what has made Hong Kong the world's third wealthiest economy on a per capita basis, and one of the world's leading traders.

But what is it that drives this competitiveness? Obviously, low taxes, minimal government interference in the economy, a sound and internationally respected legal system, and a large and powerfully driven community of entrepreneurs, all play a part. But to date, no one has undertaken a definitive examination of what underlies this competitiveness. Now more than ever, a clear understanding of Hong Kong's competitive advantage is of critical importance.

International competitive pressures are increasing, and if Hong Kong is to maintain its lead, its executives need to understand with greater clarity why they have stayed ahead up to now. And of course, as Hong Kong heads towards the historic transfer of sovereignty from Britain to China in 1997, it needs to manage with confidence the inevitable uncertainties that are involved, and the opportunities that lie ahead. At the same time Hong Kong companies must strive not only to preserve and nurture their competitiveness, but also to enhance it.

It is the need for clearer insight into Hong Kong's true sources of competitiveness that has driven this study - led by Professor Michael Enright, who as a researcher and professor at the Harvard Business School has over the past decade won international renown in similar studies across 14 economies worldwide.

The Hong Kong story this study tells is a complex but fascinating one - a story of adaptation, resilience, counter-intuitive combinations and true market capitalism - in short, Hong Kong is an economy that owes much of its past strength to its uniqueness, and it is clearly this invaluable asset which will carry its prosperity well into the next century.

(Cover Slide 1)

The Hong Kong Advantage: A Study of the Competitiveness of the Hong Kong Economy

Presentation July 1996
Executive Summary

Hong Kong's economy has a unique set of strengths (Slide 2) and is well placed to take advantage of regional and global opportunities in the future. Hong Kong faces challenges and uncertainties, but is starting from a very strong base and its industries are more robust than many recognize. (**Slide 3**) Future success, however, will not come automatically. Hong Kong's competitors are improving and some are targeting industries and activities in which Hong Kong has traditionally been strong. The Hong Kong economy also faces internal challenges to its future competitiveness that are independent of its political status. Finally, Hong Kong faces uncertainties that will require careful management if future prosperity is to be assured.

A Strong Economic System

Hong Kong's strong economic performance has been due to its location, its people, and a distinct economic system. (Slide 4) This system is characterized by unique balance and interaction between government and business, between local and overseas firms, between strategies of hustle and commitment, and between management and entrepreneurship. (Slide 5) These combinations have allowed Hong Kong to emerge as an economic powerhouse with an influence in the global economy that goes far beyond what would be expected given its size. Hong Kong is far more than a passive bridge, gateway, or entrepot. Instead, Hong Kong and its firms are active packagers and integrators of activities for the local, regional, and global economy, matching demand and supply on an international basis.

The economy has benefited greatly from the Hong Kong government remaining a disinterested referee rather than an economic player competing directly with the private sector. Although there have been some relatively close relationships between government and business in some sectors in the past, what stands out in comparison to other economies in Asia is the separation between government and business that has contributed strongly to the integrity of regulation and the confidence of local and overseas firms in the Hong Kong economy. This separation has allowed Hong Kong firms to make their own way in the world economy and has been an important component of the "Hong Kong system".

Hong Kong is home to a unique mix of thousands of local firms with transnational operations or sales and over eighteen hundred overseas firms with offices or operations in Hong Kong. The combination of entrepreneurial companies and managerial companies found in Hong Kong is distinctive in the Asian context. Hong Kong also has a unique mix of firms employing "commitment strategies" based on large scale investments in industries with relatively stable cash flows such as transportation, infrastructure, property, and utilities, and firms employing "hustle strategies" based on flexibility, rapid response, competitive pricing in industries such as garments, toys, electronics, and trading. It is the interaction of the components of each combination, rather than the presence of any one component, that has created advantage for Hong Kong.

Hong Kong and Hong Kong firms act as packagers and integrators, organizing industrial activities to match sources of supply and demand for regional and global markets in areas such as manufacturing industries, financial investments and instruments, and infrastructure and other projects. Hong Kong firms have developed extensive activities on the Mainland and throughout Asia. In one survey, roughly 60%of the exports of Hong Kong manufacturing and trading companies were manufactured on the Mainland and another 30% were manufactured in third countries or regions. (Slide 6)

After decades as an enclave economy, cut off from its natural economic hinterland, Hong Kong is beginning to capitalize on the combination of its unique competitive advantages and its increasingly close links with its natural Chinese hinterland. Hong Kong has had an important role in the emergence of the Mainland's external economy. Hong Kong and its firms handle 50% of the Mainland's and 80% of Guangdong's exports. (Slide 7) *Hong Kong has been by far the largest source of foreign direct investment on the Mainland. Mainland labor, land, and resources have been coupled with Hong Kong management, capital, design, marketing, procurement, and logistics to form a powerful combination of increasing importance on global markets. The interaction has been a two way street. Mainland* *interests also have made extensive investments in Hong Kong and have significant shares of several Hong Kong markets.* **(Slide 8)**

Business and Economic Trends Favor Hong Kong

Major international business and economic trends are playing into Hong Kong's hands. These trends include the growing importance of the information and knowledge based economy, dispersed production networks and virtual firms, packaging and integrating abilities, and logistics as a source of competitive advantage. Hong Kong also is uniquely situated at the most important economic crossroads in the world today, between East and West, between East and East (intra- Asian trade and investment), between North and South, between industrialized and developing nations, between capitalist and reforming economies, and between China and everywhere else. Hong Kong is well situated in the center, both literally and figuratively, of the most dynamic economic region in the world today.

In recent years, intra- Asian trade has grown substantially faster than that within Western Europe or within North America. Asia- North American trade and Asia- Western European trade both have been growing faster than North America European trade. **(Slide 9)** *China's economy and exports have been among the world's fastest growing and Guangdong's economy and exports have grown faster than those of the rest of China.* **(Slide 10)**

Hong Kong also has emerged as the de facto capital of the overseas Chinese business community which is playing a powerful role in the growth of the economies of east and southeast Asia. This has increased Hong Kong's importance as a conduit between overseas Chinese and opportunities on the Mainland and elsewhere in Asia. It has enhanced Hong Kong's position as Asia's leading headquarters location for overseas firms and one of the world's principal sources of foreign direct investment. **(Slide 11)**

Hong Kong is ideally situated to benefit from the shift in economic power from the West to the East. It is a relatively short flight from Asia's economic centers and has taken on an important role as a financial and business center for the region. Hong Kong should also benefit from regional trends toward more open, affluent, consumer and market oriented economies.

But Competitors are Improving

Hong Kong's competitors are improving and narrowing the perceived gap with Hong Kong. Singapore has attempted to attract Hong Kong based regional headquarters and financial service operations and has attempted to overcome its limited hinterland and shortage of entrepreneurship through carefully targeted government action. Taiwan has explicitly targeted several industries and activities (air and sea cargo, media, communications, and regional headquarters) in which Hong Kong is a regional leader and is attempting to deregulate its economy to make it more attractive to local and overseas firms.

Singapore has developed a successful strategy that has been well marketed. The Singapore system, with its reliance on overseas multinationals and government intervention, and its relative lack of local entrepreneurship, however, is a very different one from that of Hong Kong. **(Slide 12)** *Each of the two systems gains its strength from self-consistency. Given the differences between the systems, attempts to borrow specific aspects or policies from one to the other should be undertaken only with great care.*

Singapore is a direct competitor for Hong Kong in some areas, such as attraction of Asian regional headquarters and financial services, but in most areas of the economy, Singapore serves different markets and is not a direct competitor. **(Slide 13)**

Taiwan, although faced with major political obstacles, could emerge as Hong Kong's most direct competitor. Taiwan is a potential competitor for location sensitive business and its Asia Pacific Regional Operating Center strategy has targeted activities, such as air and sea cargo, telecommunications, media and entertainment, and multinational headquarters in *which Hong Kong has been a regional leader.* **(Slide 14)**

Shanghai and Sydney are in many ways complementary to Hong Kong rather than directly competing. **(Slides 15, 16, 17, 18)**

Hong Kong's Economic Transformation has Strengthened the Economy

Although many have noted the economic transformation that Hong Kong has undergone since the opening of the Mainland China economy, this transformation has often been mischaracterized. The transformation has been not so much from a manufacturing economy to a service economy, but from a manual economy to an information and knowledge based economy, and from an enclave economy to a metropolitan economy.

Hong Kong based manufacturing industries have become stronger by combining the land, labor, and resources available on the Mainland with the design, prototyping, marketing, procurement, and logistics skills found in Hong Kong. In the process, incomes in Hong Kong have soared and unemployment in the territory has remained low. What has been unique in Hong Kong has not been the nature of the transition itself, since most leading metropolitan economies have undergone similar transitions, but the speed and minimal dislocation with which it has been achieved. **(Slide 19)**

Hong Kong's manufacturing economy has not "hollowed out". On the contrary, it has developed the rare ability to package and integrate knowledge intensive activities performed in Hong Kong with lower value added production stages of the manufacturing value chain performed in Mainland China and elsewhere. **(Slide 20)** *This has strengthened rather than weakened Hong Kong industry by giving it access to a work force well in excess of that available in Hong Kong.* **(Slide 21)**

But the Transformation Also Has Created Challenges to Future Competitiveness

Hong Kong's transformation has left its economy richer than before, but also has created challenges to Hong Kong's future competitiveness. In many ways, the economic challenges with which firms in Hong Kong are wrestling today are the result of Hong Kong's successes rather than its failures. The transformation, and the higher incomes it has generated, have created pressures in terms of higher costs, a need for improvements in efficiency of non traded sectors, and a need to develop a work force better able to work across cultures and act independently. Many of Hong Kong's institutions and firms have yet to make the adjustments necessary to catch up with the rapid pace of economic change.

Cost increases in Hong Kong in recent years have been largely due to increased incomes and increases in demand for office space and labor. They are largely the result of Hong Kong's successes rather than its failures.

Office rental and compensation package costs in Hong Kong are high compared to Shanghai, Sydney, and Taipei, but are comparable or lower than in Singapore and Tokyo. **(Slides 22, 23)** *In other cost items, such as telecommunications, air travel, hotels, and entertainment, Hong Kong's costs are broadly comparable to those found in other cities in the region.* **(Slides 24, 25, 26, 27)**

Hong Kong's simple tax structure and low rates make Hong Kong an attractive location with respect to other cities in Asia on an AFTER TAX basis. **(Slide 28)**

Cost pressures felt in Hong Kong have highlighted the need for improved competitiveness and cost effectiveness throughout the economy. While free and open competition has long been the case in the traded sectors of the Hong Kong economy, this has not been the case in some non-traded sectors. Since they do not face direct competition, it is important to ensure that the monopolies and oligopolies found in Hong Kong operate at maximum efficiency. Restrictions on entry into professional service industries should work to keep out the *unqualified, not to keep out competition.*

Many Hong Kong firms have not yet made the adjustment to operating in a high cost economy. Many have not identified inefficiencies of past practice or incorporated cost saving information and managerial systems. There is substantial scope for Hong Kong companies to improve their own internal efficiencies.

Hong Kong's economic transformation has created new work force requirements. In the past, many Hong Kong companies needed people with minimal qualifications, basic skills, and the ability to follow directions. Today, Hong Kong companies need people with higher qualifications, advanced and specialized skills, and the ability to think independently and make decisions.

The disappointment of some Hong Kong based companies with the quality of the local work force can be traced to a lag between a rapidly changing economy and the ability of Hong Kong's firms and institutions to develop the requisite skills in the work force. Hong Kong would benefit from retaining flexibility with regard to redeployment of the work force. Hong Kong also should maintain its ability to attract outstanding individuals from anywhere in the world.

The transformation has put pressure on Hong Kong's traditional hustle and commitment strategies. Access to the Mainland will allow for a continuation of traditional hustle strategies in the medium term. Increased cash flows through Hong Kong will allow for a continuation of traditional commitment strategies in the medium term. In both cases, Hong Kong firms will have to broaden and sharpen their sources of advantage to succeed in the longer term.

The largest payoff for investments in technology in Hong Kong are likely to be realized by investments that improve the business infrastructure, that enhance capabilities in business processes for Hong Kong's major existing industries (particularly those involved in information handling and communication), or that help to articulate and exploit demand specific to Hong Kong and the Mainland. (Slides 29, 30)

A Rich Set of Opportunities for Hong Kong in the Future

Hong Kong firms have a rich set of opportunities going forward. (Slide 31) In addition to the potential to ride the wave of regional economic growth, there are a number of opportunities within the individual industries studied as part of this project. Hong Kong has strength in international service industries, but only recently has begun to promote itself as a service center. There is scope for growth in existing international services and in services that Hong Kong has yet to internationalize. Hong Kong firms and the Hong Kong administration will benefit from an expanded choice set going forward.

Hong Kong firms have been strong in international services, but active and organized promotion of these services is in its infancy. In addition, Hong Kong has yet to internationalize services such as medical and educational services in which it is a regional leader and for which there is substantial demand from Asian customers who now go elsewhere.

Hong Kong firms have taken advantage of opportunities on the Mainland in manufacturing, infrastructure, and property development, but have only just begun to develop opportunities in retailing, distribution, and other areas of the economy. As the Mainland economy grows, there will be more and more opportunities for Hong Kong firms and industries.

There is scope for Hong Kong firms to improve their internal effectiveness. Many if not most Hong Kong firms have yet to join the information age. Many have yet to improve labor efficiency to match rises in wages. Many have yet to incorporate modern administration and control systems or to invest in their work force.

In the past, Hong Kong's local demand was rarely identified as a source of competitive advantage. Upon closer examination, Hong Kong demand has been a source of advantage in areas such as engineering, transport, and utilities. **(Slide 32)** *Today, Hong Kong is an affluent economy of six million people with a vibrant and dynamic culture closely linked to south China. This will provide greater scope for leveraging the knowledge generated by serving local demand into international markets.*

As Hong Kong becomes a Special Administrative Region of China, there is scope for firms and government to identify areas in which leveraging the two systems provides advantage. Infrastructure links, marketing or promoting a Hong Kong/ south China combination to overseas firms, and providing technical support to the Mainland are just a few such areas.

Better Execution Rather Than Dramatic Changes in Strategy

While some believe that dealing with Hong Kong's economic challenges requires a substantial change in strategies, the study suggests that it requires Hong Kong firms and institutions to augment existing strategies and to execute them better.

As Hong Kong firms evolve and mature, they have opportunities to take advantage of an expanded choice set involving investments in their work force, investments in hard assets, investments in research and development, and investments in branding. There will be substantially greater scope for investment and sales on the Mainland as its industrial and consumer markets take off. Several of Asia's economies provide similar potential. It also will be critical for Hong Kong firms to maintain a global outlook and not just focus on opportunities on the Mainland.

There also will be greater scope for public entities to identify economic gains that might be achieved through greater interaction with the Mainland. In addition, there is ample scope for both public and private Hong Kong entities to explain and market Hong Kong's potential to a skeptical outside world far better than they have done in the past.

Managing Uncertainties and Influencing Their Outcomes

Hong Kong faces many uncertainties that will influence its economy and industries within the economy through 1997 and beyond. Although some uncertainties are beyond the power of Hong Kong and Hong Kong interests to influence, other uncertainties are within the power of Hong Kong and Hong Kong interests to influence or to manage. With respect to the Mainland, Hong Kong interests have handled themselves capably and will have greater scope to do so in the future. In addition, many of Hong Kong's industries have good prospects and are relatively robust to external shocks. Massive investments currently being made in Hong Kong, by Hong Kong interests, Mainland interests, and overseas interests show substantial confidence in Hong Kong's economic future.

A Beta Site for the Global Economy

Hong Kong could be positioned as a beta site, or leading edge test site, for the global economy. For outside firms, managers, individuals, and planners, Hong Kong provides an important view into the future of business and economic trends. For insiders, this implies that Hong Kong should not try to protect its old economy, but must maintain the flexibility to build a new economy. Facing pressures first in Hong Kong can allow the territory to master them before the competition. It also implies that Hong Kong must be ahead of the curve in infrastructure, education and training for the economy of the future. It also implies that Hong Kong would be well served by continuing to be open to outside influences and responsive to market signals.

Uniqueness as Hong Kong's Most Valuable Asset

Hong Kong faces many challenges, but is starting from a very strong base. In order to succeed in the future, it will need to maintain the balance, openness, and lack of distortions that have fostered for resilience while continually focusing on needs for the future. No one could have fully predicted or planned Hong Kong's successful reactions to past challenges. Similarly, no one can fully predict or try to plan fully Hong Kong's reactions to its present challenges. Uniqueness is Hong Kong's most valuable asset, because sustainable competitive advantages come from uniqueness. If Hong Kong maintains, further develops, and exploits its unique attributes, its economic future should be as successful as its past. (Slides 33, 34)

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