1-7-1993

Clinton China Policy Business Coalition

Max S. Baucus

Let us know how access to this document benefits you.
Follow this and additional works at: https://scholarworks.umt.edu/baucus_speeches

Recommended Citation
https://scholarworks.umt.edu/baucus_speeches/494

This Speech is brought to you for free and open access by the Archives and Special Collections at ScholarWorks at University of Montana. It has been accepted for inclusion in Max S. Baucus Speeches by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
Senator * or Department*: BAUCUS

Instructions:
Prepare one form for insertion at the beginning of each record series.
Prepare and insert additional forms at points that you want to index.
For example: at the beginning of a new folder, briefing book, topic, project, or date sequence.

Record Type*: Floor Statements & Congressional Rec

MONTH/YEAR of Records*: January-1993
(Example: JANUARY-2003)

(1) Subject*: A Recommended Clinton China Policy Business Coalition
(select subject from controlled vocabulary, if your office has one)

(2) Subject* U.S. - China Trade

DOCUMENT DATE*: 01/07/1993
(Example: 01/12/1966)

* "required information"
One of the first major foreign policy decisions facing the new Congress and the new Administration will be the annual review of China's Most Favored Nation -- MFN -- trading status. Although the Congressional debates on the subject have been impassioned, I believe that we can -- we must -- continue China's MFN status because it is in the best interests of the United States to do so.

In June of 1989, the United States and the world condemned the brutal response of the Chinese Government to the peaceful demonstrations of its citizens. China must abandon repression as a policy if it expects to be respected as a responsible member of the world community.

The nations of the world cannot do "business as usual" with tyrants who brutalize their own people. China's leaders must understand this if they want to continue to enlist the world's cooperation as they seek to modernize their economy. Development and democracy have more in common than the sound of the words.

The United States has a proud tradition of leading struggles for human rights and democracy around the world. President Truman drew the line at Soviet expansion into Greece and Turkey and forged a coalition of nations that contained Communism for two generations, until it collapsed in the dramatic events of the last three years.

A similar leadership opportunity awaits President Clinton. He does not face a superpower with expansionist designs, but rather a series of regional challenges. These can take many forms -- tyrants who cast a covetous eye on their neighbors' oil or regimes bent on keeping themselves in power at the expense of the human rights of their own people.

Crafting coalitions and strategies to stabilize these problems will be President Clinton's major foreign policy challenge. And leading the nations of the world in convincing China that it cannot continue its destabilizing policies on trade, human rights and arms sales can provide him with the first opportunity to begin that difficult but critical process.

But the nations of the world cannot afford to isolate China. We must remember that one in every five people in the world lives in China. Whatever we think of China's current leadership, its sheer size means that it will play a significant role in the world's political, economic and environmental affairs.

Breaking ties with China would only hand its future over to the hard-line Marxists who sent the tanks into Tiananmen. It would not help the cause of democracy, improve trade relations, or further the cause of arms control. In fact, the darkest periods in China's history have occurred when it was isolated from the rest of the world.
MFN IS NOT A SPECIAL PRIVILEGE

To put the upcoming decision on extending MFN trading status into perspective, we must recognize several facts.

First, MFN is not what it says. It is not the most favored trading status that a nation can have. It is not a special privilege that we grant to only our closest allies. Despite its alluring name, MFN is no more than "normal" tariff treatment. Even Iraq, Syria and Iran -- hardly our best friends -- enjoy MFN treatment with the United States.

Second, MFN is not even the "most favored" tariff status we offer our trading partners. In fact, about 100 of our trading partners send their goods to the United States at tariff rates lower than MFN under such programs as the Generalized System of Preferences, the Caribbean Basin Initiative and free trade agreements.

Third, no other nation is even considering withdrawing or conditioning MFN for China. Not Japan. Not Europe. Not Canada. No one. Even Taiwan -- China's archenemy -- actually moved to expand trade with China in 1992.

Fourth, to withdraw MFN from China would send the wrong signals to China and the world. It might make us feel good, but it would not do good. It could backfire on us and invite a repressive backlash in China and hurt American exporters and consumers.

If we were to withdraw MFN, tariffs on Chinese products would skyrocket from their current rate of about 4 percent to as high as 110 percent. Tariffs on sweaters from China would go from 6 percent to 60 percent. Tariffs on toys would go from 7 percent to 70 percent. Before MFN was extended to China, our two-way trade was only a tenth of what it is now. Neither side can afford a return to that situation.

Almost certainly, Beijing would respond to a withdrawal of MFN by cutting off virtually all U.S. exports to China. U.S. exports to China reached $8 billion in 1991 -- growing 16 percent despite a worldwide economic slowdown. One reliable estimate puts American job losses at 157,000 if China were to switch orders to third-country suppliers for American products ranging from airplanes to wheat.

ENGAGEMENT HAS WORKED

With MFN in place, the U.S. has been able to address our concerns with China constructively. We have concluded two major bilateral trade agreements in the past year and engaged the Chinese on a number of our major concerns.

In January last year, we signed an Intellectual Property Rights Agreement that -- when brought fully into effect -- will bring China far closer to modern international standards of protection. This agreement will give U.S. businesses the legal tools to defend their software, sound recordings and patented drugs against piracy in China.
Then in October, we signed a market access agreement that takes major steps toward opening China's trading system and has the potential to reduce the huge trade surplus that China now enjoys. American businesses will face lower tariffs and a more open trading regime.

Under pressure from the Congress, the Bush Administration negotiated an agreement to stop China's export of products made with prison labor, and has convinced China to sign the Non-Proliferation Treaty and to abide by the Missile Technology Control Regime.

These steps would not have been possible without MFN in place. MFN has kept channels of communication open. Withdrawing trade benefits to express our concern about human rights and arms control would complicate our relationship without the promise of positive results.

In the post-Cold War world, it is more critical than ever for the United States to demonstrate its leadership. We must continue to lead the world toward greater respect for human rights and free, fair trade -- and away from irresponsible sales of arms. There is no country where we need to test our resolve more than China, and no way better to demonstrate that resolve than by the patient use of carefully targeted responses. And there is no more futile policy than isolating China.

**TRADING IDEAS WITH GOODS**

Trade, by itself, directly promotes reform in China. With MFN in place, we trade ideas along with goods. Freighters of American wheat bound for Shanghai also carry in their holds the seeds of democratic ideals. American computer programs have embedded in them the notions of freedom of inquiry and the value of the market place of competing ideas.

To see the link between the trade in goods and the exchange of ideas, we need only look at South China. It is no accident that those provinces are the heart of the trade boom and also the center of political reformist sentiment in China. They see that innovative economic ideas can only grow in a political climate of free discussion.

Cutting off MFN would hurt the progressives there more than it would the hard-liners we want to discourage. As capital and labor move more freely, state control of ideas will become more difficult. And as our trade expands into more areas of China, western ideals will penetrate further and further into the hinterland. Cutting off MFN would stall that important process.

This group needs no reminder of the importance of Hong Kong in China's trade. Cutting off MFN would injure Hong Kong more than it would any Chinese province, at a time when we need to do all we can to promote and expand democracy in that outpost of capitalism.

It's easy for Americans -- an ocean away -- to pontificate about what’s best for the Chinese. But the people of Hong Kong live directly with the consequences. It's no accident that Governor Patten and the people of Hong Kong -- staunch advocates of greater democracy -- are strongly opposed to efforts to condition MFN.
In short, cutting off China's MFN status could break a critical link between China's reform movement and the West. Many of Beijing's hard-liners would welcome the chance to cut off China's forward-thinking South in favor of political orthodoxy.

**STATUTORY CONDITIONS ON MFN ARE SELF-DEFEATING**

It would be just as damaging for Congress to impose conditions on the continuation of China's MFN status as it would be to terminate it completely.

The Chinese hard-liners would likely respond as negatively to conditions as they would to revocation. New restrictions on MFN thus could well give hard-liners a useful pretext to advocate diminished ties with the West and a return to greater authoritarianism. It's an easy argument for the hard-liners to make: "We've tried opening up to the outside world. Their leader has welcomed our opening by slapping us in the face. The only way for China to survive is to go back to the old ways."

We should not forget that China's MFN status is already conditional. The law requires annual review of MFN status for China and only a few other countries -- not the vast majority of our trading partners. That annual review of MFN is all the conditionality that we need to impose.

Before the President can recommend each year's extension, he must certify that China meets Jackson-Vanik requirements. As a practical matter, the process provides an annual opportunity for the President to review China's MFN status in light of all issues, including human rights, trade, and other concerns. This can all be done by the Clinton Administration without a single new sentence of legislation.

But new Congressionally-imposed conditions on extending MFN would hamstring the President. Congress would have established 17 conditions in the last MFN conditions bill. If China failed to meet even one of those conditions, President Clinton would effectively be forced to break ties with China.

Further, even if a conditions bill could be put together that did not force President Clinton to break off ties with China this year, what of the future? What would keep Congress from adding new conditions on MFN for China? What would prevent the Congress from extending the same policy to Arab countries that boycott companies trading with Israel? Or to Israel if it were to resume building settlements on the West Bank?

It is easy to imagine conditional-MFN bills becoming an annual Congressional exercise. In time, we might find that no nations could meet a Congressionally-mandated series of litmus tests on human rights, trade, or a range of other issues.

We in Congress tell our U.S. business executives that they are too oriented to the short term. We also tell them that they must compete internationally. But how can American executives plan rationally for the future when there is no guarantee that trade with a given nation will even be legal in the future?
Trade and competitiveness must be at the core of our foreign policy -- not afterthoughts.

With President Clinton in the White House, I hope we can reach a consensus policy on China that balances all interests and avoids a bitter and counterproductive debate over MFN. All legitimate concerns should be addressed, but U.S. policy should remain balanced.

POLICY SUGGESTIONS FOR THE NEW ADMINISTRATION

Ironically, there is a greater need for coordinated, multilateral cooperation than ever before. China offers President Clinton a unique opportunity to bring the industrial democracies into a coordinated response early in his administration. It will require leadership, building on the progress that his predecessor has made over the last two years under pressure from Congress.

The Clinton Administration should intensify efforts to bring China's human rights, trade and arms sales policies into line with those of the rest of the world. It should continue to prod China with all realistic means at its disposal.

An early statement by President Clinton or Secretary Christopher should emphasize that the Administration will carefully review China's progress on human rights, arms control and trade policy when making its June MFN recommendation to the Congress under Jackson-Vanik.

At the same time, the Administration should make it clear that withdrawal of MFN is a measure of last resort and that it has more targeted means at its disposal to address our concerns. That statement should make it clear that further statutory conditions are not necessary to keep pressure on China. In fact, further statutory constraints would be counterproductive.

The Administration could couple such a statement with several concrete actions to demonstrate its resolve:

HUMAN RIGHTS

The Administration should re-emphasize the importance of respect for human rights as a major element of American foreign policy.

*** First, the Administration should call again for the establishment of a bilateral task force to discuss human rights and other issues of mutual concern. Informal meetings to discuss these issues could precede the formal establishment of such a commission as an interim first step.

*** Second, U.S. broadcasts to the Chinese people should be expanded. During Tiananmen, millions of Chinese sought the VOA as the source of reliable news on the events in their own capital. The Chinese Government demonstrated VOA's success by
expelling the VOA correspondent from the country. That is a journalist’s badge of honor for effective reporting.

***

Even now, millions of people in South China turn their rooftop antennas toward Hong Kong to get reliable news -- even though Hong Kong television is broadcast on a different standard.

***

Third, the Administration should issue a strong statement in support of democracy in Hong Kong. That colony’s confidence in the U.S. commitment to its future stability is as important as Beijing’s appreciation of our commitment to human rights. Governor Patten and the people of Hong Kong are on the front line. They deserve our strong support.

***

Fourth, the State Department and the Customs Service should enforce vigorously the new agreement to block the import from China of items made with prison labor from China to the U.S. This would demonstrate both continued U.S. resolve to free and fair trade with China and the new Administration’s seriousness about prison labor exports.

***

At the same time, the Administration should use the inspection provisions of this agreement to press for access to facilities suspected of producing such goods. The agreement gives the U.S. the right to inspect suspect facilities. The human rights groups have a long list of such facilities. The new Administration should take immediate action to exercise its rights. As President Reagan was fond of saying in another context, "Trust -- but verify."

***

Finally, the U.S. Embassy in Beijing must stress to senior Chinese officials the new Administration’s commitment to improving respect for human rights in China. Private reinforcement of public statements is critical.

TRADE

With regard to trade, the Administration should take four additional steps:

***

First, the new President should instruct the U.S. Trade Representative and the Department of Commerce -- through the Joint Commission on Commerce and Trade -- to monitor compliance with the intellectual property and market access agreements rigorously. The agencies should solicit the experiences of U.S. businesses in working with the Chinese Government to implement the agreements and be prepared to retaliate swiftly against any Chinese violations of these trade agreements.

***

Second, the U.S. should seek to establish a mechanism to review bilateral trade issues at senior levels on a frequent, regular and routine basis. Secretary Franklin’s trip to Beijing last month raised the level of the dialogue. The Joint Commission on Commerce and Trade is equipped to address specific trade problems at the working level, but the U.S.-China trade relationship requires more than one visit by a Secretary of Commerce to discuss the policy issues.
Third, the Administration should ensure that Customs continues vigorous efforts to intercept mislabeled and improperly trans-shipped Chinese textiles and apparel as they enter the U.S. Customs should also seek to work further with Chinese authorities to stop these problems at their source.

Finally, the U.S. should continue to examine China's application to join the General Agreement on Tariffs and Trade -- GATT -- carefully. The U.S. must continue the policy of considering China's and Taiwan's petitions separately. Before China is allowed to enter the GATT, it must demonstrate that its market is truly open to exports. In the past, when centrally planned economies, such as Poland and Hungary, sought to enter the GATT, numerical export targets were negotiated to ensure that those economies were truly open. Similar targets may be appropriate for China.

ARMS CONTROL

Finally, to address arms control concerns, the Clinton Administration should take two initiatives:

First, the Administration should instruct the intelligence agencies to monitor China's compliance with its Nuclear Non-Proliferation Treaty and Missile Technology Control Regime obligations carefully. The Administration should consider imposing targeted and credible sanctions on high-tech exports to China if it finds definitive evidence of violations. Most importantly, the U.S. should exercise strong leadership to multilateralize sanctions.

Second, the Administration should also seek to open negotiations with China to secure Chinese adherence to the Threshold Test Ban Treaty.

In the past weeks we have heard President-elect Clinton stress many times the need to avoid "quick fixes" to the long-term problems of the U.S. economy. The same is true with China. Resolving deep seated problems requires patience and perseverance, not the quick but emotionally satisfying use of the MFN "big stick." And American leadership can provide the catalyst for a coordinated approach by the nations of the world to move China toward more responsible policies.

The activist measures that I have suggested will not guarantee speedy progress. But I believe that they will encourage movement toward the goals we -- and the world -- seek. They will go far toward easing Congressional concern about China's behavior. They will also ease Congressional concerns -- so prevalent in recent years -- that the Executive branch is not committed to promoting reform in China.

NEED FOR EARLY ACTION

My Congressional colleagues who supported imposing conditions on China's MFN status have real and legitimate concerns. In fact, the tireless and heroic efforts of George Mitchell and Nancy Pelosi to bring attention to our concerns with China deserve great credit for the progress that has been made on addressing our concerns with China's human rights
and arms sale policies, as well as our bilateral trade deficit, China's export of prison labor products and its trade policies.

Working together, Congress and the new Administration can forge a new policy that we can all support.

The Administration's success at engaging the Chinese before an MFN decision comes to the Hill this spring will go a long way toward determining its fate. With the new Administration and the Congress from the same party, it would damage U.S. credibility severely to repeat the sniping from opposite ends of Pennsylvania Avenue that we have seen for the past three years.

But if the Clinton Administration sets an aggressive policy to engage China and take targeted initiatives for reform, I hope and believe that Congress will have the patience to give that policy time to work.

The only certainty in China policy now is June 3 -- the anniversary of Tiananmen and the deadline for the President's annual MFN determination. China's leaders can be unpredictable and events can take us in directions we cannot foresee. But the Clinton Administration has an opportunity, by moving quickly and decisively, to move China toward becoming a more responsible member of the world community, while at the same time smoothing a major friction point with the Congress.
There is no foreign policy issue that could affect the U.S. economy more than the North American Free Trade Agreement.

NAFTA promises to create the largest trading bloc in the world -- with more than 380 million consumers, more than 6 trillion dollars in combined gross national product. Canada is already our largest trading partner, Mexico our third. With NAFTA in place, those relationships could only be strengthened. Access for American businesses to the large and growing Mexican market would be increased. And U.S. businesses stand to gain tremendous advantages in this market over their Japanese and European competitors, both from better access to the markets and from economies of scale.

Today, I would like to focus on NAFTA’s prospects in the Congress. It is certain to be one of the most contentious issues we face this session. But the Administration can do much to ease our concerns before it submits the package for consideration. Let me sketch some of the issues that must be addressed for NAFTA to win Congressional approval.

In any negotiated agreement, no party gets everything it wants. In NAFTA, there will be industries that win and industries that lose. With NAFTA in effect, the U.S. stands to gain far more jobs than it stands to lose. But some industries certainly stand to lose jobs.

Most of those jobs are in labor-intensive industries in which U.S. companies already face substantial pressure to move production overseas. We cannot allow NAFTA to accelerate that process.

We must address -- both in NAFTA and in the wider context of global competition -- the retraining of U.S. workers whose jobs are threatened by the attraction of lower wages abroad. In order to minimize any possible disruption stemming from NAFTA, we must ensure that worker adjustment programs are in place before NAFTA is implemented.

American workers are the most productive in the world. But in some industries, productivity alone is not enough to keep jobs at home. We need to identify areas and industries where jobs are at risk and work aggressively to develop programs to retrain workers who may lose their jobs to foreign competition or other economic pressures.

[more]
At the end of the Tokyo Round of GATT talks in 1974, Congress and the Administration recognized that the nation as a whole would benefit from the new Agreement. But they also recognized that some jobs would be threatened. So Congress passed something called the "Trade Adjustment Assistance Program" -- the "TAA" -- when it approved the Tokyo Round. Under TAA, workers who were displaced became eligible for income support and retraining for productive new jobs.

That bargain held until 1981. But in the last twelve years, Republican administrations have tried to eliminate TAA every year. We must break this pattern and return to the original bargain.

The Clinton Administration understands this and has made a worker adjustment program a precondition to concluding the NAFTA. The Administration has not yet come forward with a specific legislative proposal. One thing is clear: the program must be in place before the NAFTA is implemented.

A second key concern regarding the NAFTA as negotiated is its treatment of the environment. Certainly NAFTA has broken new ground in trade agreements in that it even takes environmental concerns into account. But the current agreement leaves unaddressed many of the environmental issues that have been raised. The Clinton Administration has committed to addressing environmental concerns in a separate side agreement.

At the top of the list of environmental concerns is enforcement of existing laws. Mexico's environmental protection laws often look very good on paper, but enforcement lags far behind U.S. levels. Financial resources, technical expertise and -- especially at the local level -- political inertia all limit Mexico's ability to address its pressing environmental problems. For Mexican exporters, the absence of effective pollution controls can confer a significant subsidy.

In the side negotiations, we must find a way to ensure that "pollution does not pay." Otherwise, NAFTA would inadvertently create an incentive for businesses looking to cut corners to add to Mexico's already significant environmental problems. We cannot be responsible for allowing the physical environment in both the U.S. and Mexico -- and the economy in the U.S. -- all to suffer.

The side agreement will have to address two issues. First, the newly created tri-national North American Commission on Environment -- NACE -- must be made an effective force for promoting environmental protection. Second, the side agreement must create some kind of binding enforcement mechanism.

The North American Commission on the Environment has been presented as NAFTA's environmental watchdog, but its membership, duties and enforcement powers remain undefined. It has been described as everything from an annual meeting of environmental ministers to an enforcement agency with the power to close down polluters in any of the three

[more]
countries. I reject both of these extremes. The first is too weak, relying on toothless evaluations of conditions and pledges to clean things up. The second gives too much power to an appointive body beyond national control.

In the NACE, we need something with teeth, but which recognizes national sensitivities. Let me suggest a model that I believe would meet both considerations. We should create a NACE with both consulting and investigating functions.

As consultants, I would envision NACE functioning somewhat along the lines of the Commerce Department’s new Manufacturing Outreach Centers or the Department of Agriculture’s Extension Service. Technical experts, perhaps in regional offices, would be available to consult with government and business in addressing environmental issues. They could help a factory manager find the appropriate technology to reduce air and water pollution. They could meet with enforcement officials to discuss how to meet legal requirements of proving violations of the laws. And they could guide industries to grant or loan programs that would aid in financing pollution control.

On the enforcement side, I believe that NACE should be the initial point of consideration for complaints. But both enforcement and retaliation for lack of enforcement should remain with national authorities. A permanent multinational staff of experts could receive complaints of noncompliance with applicable laws from any source.

This staff would evaluate and investigate the complaint. It could recommend corrective action to the appropriate national environmental agency. If the violation persists, after a reasonable time NACE experts could recommend to a NAFTA dispute panel that trade sanctions be imposed. Sanctions could range from banning importation of products of a single offending firm to selectively snapping back tariffs to pre-NAFTA levels. For this process to work, inadequate enforcement of environmental laws must also be subject to NAFTA’s dispute settlement process.

This is certainly not the only way to address environmental enforcement, but I believe it is the best.

No trade agreement before has included restrictions based on the process by which a product was made. But the global environmental crisis requires that we break new ground. We and our neighbors can lead the world in this regard. I believe that the environmental considerations are the single most important issue that the Administration must address before forwarding NAFTA to Congress. It is not a question of environmental concerns versus economic concerns. The two are not opposites, they are complements. And an agreement as important as the NAFTA is certainly the appropriate vehicle to begin linking environmental and economic development on a multinational scale.

Underlying both the worker adjustment program and the environmental cleanup is the question of funding. Some have suggested that the U.S. should subsidize increased
environmental enforcement in Mexico as one price of creating the NAFTA. In these days of tight government budgets, that is simply a non-starter.

The President has pledged major efforts to cut the deficit in this Administration. A major worker adjustment program in the U.S. and increased environmental enforcement in Mexico funded with U.S. tax dollars would make that pledge harder to keep.

On the other hand, a small and temporary surcharge on imports among NAFTA members would not threaten the overall benefit of the agreement to the North American economy. Revenue from a "Free Trade Trust Fund" could be dedicated to making possible a cleaner environment and a brighter economic future for workers who might be displaced.

The surcharge could be very small -- approximately 1 percent of the value of goods and services -- and it would end after the phase-in period of the Agreement. The size of both the fee and the worker adjustment program depend to a great extent on whose estimates of the job impact of NAFTA are accepted. But it would allow us to charge some of the sector-specific costs against the more general benefits that the NAFTA promises.

President Clinton has come to office on promises to bring an American renewal. The NAFTA offers unique opportunities to renew the American economy, to strengthen our ties with our neighbors, and to demonstrate our commitment to global leadership in protecting the environment. We in the Congress welcome the opportunity to work with the Administration in seeking to strengthen the NAFTA so it can better meet the needs of the American people.

If we are creative and forward-looking, we can develop a NAFTA that is good for the North American economy, North American workers and the North American environment.