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China Policy Towards the 21st Century

Max S. Baucus

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Senator * or Department*: BAUCUS

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Business Coalition for US-China Trade
Washington, DC

April 29, 1998

Good morning, everyone. Thank you, Cal, and thanks to all of you for coming.

I am very pleased to see the Business Coalition once again. We have been meeting about once a year, ever since Congress began to debate Senator Mitchell's bill to impose conditions on China's Most Favored Nation tariff status. I have always enjoyed our talks; and more important, the Coalition has been as informed and effective an organization as I could hope to work with.

And I think we have made a difference. When we first met in 1991, America faced the real possibility of a serious and perhaps permanent rupture with one of the world's major powers. Today, the Presidents of America and China are holding regular summits. We work together on issues from the Asian financial crisis to water pollution to peace in Korea. We get results -- incremental but real -- on our own concerns, from copyright protection, to weapons proliferation and political prisoners.

This is an enormous advance, for our own country and for China. Each of you should share in the credit for this. But today I would like to talk about the future. The things we hope to see, not only in China but in Asia, in the next decade; and the work we must complete in China policy to make these things reality.

GOALS IN ASIA

Let us begin with our goals in Asia.

What are they? Simple. We want a stable peace; we want prosperity and open trade; we want a decent world to live in.

And how do we get there?

We need first to remain engaged in Asia generally, through our military presence as well as investment, scientific and environmental cooperation, trade negotiations and all the rest.

Following that, and above all other policy goals, we need to preserve our alliance with Japan -- Asia's largest and most advanced economy, and potentially its strongest military power.

We must manage Korea's inevitable transition to unity with care and skill.
We must work with Southeast Asia to restore the region's economic health and supports aspirations for political unity.

I anticipate that Russia and India will play greater roles in the Pacific as the years pass, and we should prepare for that.

And if we handle all this well, we can expect a reasonably good result regardless of relations with China. But without the right relationship with China, we will achieve less than we ought -- in keeping the peace, building prosperity, promoting human rights or protecting the environment -- because China is the "Central Country" in more than name.

THE CENTRAL COUNTRY

China is Asia's largest country, in population and land. Its second largest and fastest-growing economy. At least for now, its strongest military power. And China borders every part of Asia, from Japan and Korea to Russia, Mongolia, Central Asia, India and ASEAN.

You can see the historic consequences in the use of Chinese characters in Japan. In the palace of the Korean kings, modeled on the Forbidden City. Or in Vietnam's national epic poem, the *Kim Van Kieu*, which finds its source in a Ming Dynasty novel.

And you can see the contemporary consequences in today's policy debates. The struggle for democracy in Cambodia. The spread of military technologies. The financial crisis. Climate change. Even the price of toys under the tree this Christmas. We can resolve every one of them more easily, more safely, and with greater benefit for the American people if the "strategic partnership" President Clinton and President Jiang announced last October becomes reality.

THREE STRATEGIC ISSUES

And I am more optimistic than ever before about the chance to make it reality. In dealing with foreign countries, as Jay puts it in *Federalist #4*, we should be neither easily intimidated nor quick to pick fights:

"forbearing to give just causes of war to other nations, but also on placing ourselves in such a situation as not to invite hostility or insult."

And we are not far off that advice in China policy these days. Consider first the questions of most strategic concern: the status of Taiwan, the division of Korea and the financial crisis.

With respect to Taiwan, China has made its point about how seriously it views independence. Former Secretary Perry made our point about Chinese threats of military force. Taiwan, with some confidence in our commitment to their security, can look ahead to membership in the WTO. As we integrate the international financial institutions, perhaps the IMF and World Bank as well. And as we
see Taiwan and China beginning to talk once again, we can, with caution and foresight from all three sides, expect if not reconciliation, at least stability in the Taiwan Strait.

On Korea -- the one issue that ever brought the US and China to war -- China is doing precisely what we hope it will do. It offers the North Koreans advice that only a one-time ally can give. Provides food aid. And does what it can to move the four-party talks ahead, even if that is limited to figuring out seating and handshake arrangements that the two Koreas will accept.

And on Asia's financial crisis, China's performance -- along with that of the Hong Kong S.A.R. government -- is equally impressive. With Southeast Asia's currencies down, China's competing exports are under intense pressure. A devaluation of the yuan could ease life for many Chinese businesses. But it would start a new panic in the currency market, just as Thailand, Korea, the Philippines and other Asian nations are beginning to rebuild from last year's collapse. If they recover this year, it will be in no small part due to China and Hong Kong.

WEAPONS PROLIFERATION

Then let us look at the three issues that dominated our debates on MFN status a few years ago: weapons proliferation, human rights, and trade barriers.

With respect to proliferation, the results are best on the most important question -- nuclear weapons. As part of our agreement to begin civil nuclear technology trade last year, China entering the so-called "Zangger Group" of countries which control nuclear technology exports; imposed its own new export controls; and cut off training of Iranian nuclear scientists. Since then, it has acted quickly when we call questionable actions by individual Chinese companies to their attention.

Looking toward a new summit, we appear to have some hope for better performance on missile sales. We should still see more, in chemical and biological weaponry as well as missiles; but we should also be very pleased with our achievements so far.

HUMAN RIGHTS IMPROVING

Trends in human rights in China also seem to me healthy. As a direct result of our policy, China agreed to reopen talks with the Red Cross on prison visits. It also agreed to sign the International Covenant on Civil and Political Rights, which sets a baseline for the right to vote, equality before the law, freedom of expression and freedom of conscience.

Turning from international talks and covenants to facts on the ground, we also see a broadly improving situation. We should certainly welcome the release of Wang Dan and Wei Jingsheng this year, although in fact they should be able to live and work at home. On a broader scale, the number of political prisoners in China, according to surveys done by Professor Pei Minxin at Princeton, continues to fall, dropping from around 3,000 two years ago to 2,000 last year. Village elections have spread throughout the country. And the ability of the citizen to challenge the state through
filing lawsuits is growing.

I take special note of the fact that Hong Kong's rule of law and political freedoms remain strong. Hong Kong's democrats will contest the first election next month. And critics of China in Hong Kong, from the Human Rights Monitor office to the labor union leader Han Dongfang’s China Labor Bulletin, operate as freely as ever. These things are important in their own right, and a good omen for China's future.

Finally, here in Washington our own policies are showing some imagination. We rightly continue to press on areas where things are not moving ahead as quickly as they should -- for example, treatment of the highest-profile dissidents, of religious leaders like the young Panchen Lama, and of Tibet generally.

But we are also finding less confrontational ways to promote humane values. Several leading businesses, for example, are funding the "C3-I" initiative, through which a former OSHA enforcement expert is helping China draft and enforce new workplace health and safety laws. This will reduce factory fires and other deadly accidents, thus saving the lives of hundreds or thousands of ordinary Chinese workers. The Asia Foundation is training Chinese law students and helping to set up free legal clinics.

CLIMATE CHANGE

In some areas, however, we should expect more. The environment, and in particular climate change, is an example.

The world now produces about six billion tons of greenhouse emissions a year. By 2020, that figure will rise to nine billion. And China, because of its reliance on coal for power, will produce one billion of the extra three billion tons a year. Thus, no climate change policy can succeed without Chinese participation. And the time to act is now.

This does not mean asking China to be poor. It means intense work to help China adopt more efficient power technology, implement the civil nuclear technology agreement, and find other technologies that will allow growth without an unnecessary surge in emissions.

THE TRADE RELATIONSHIP

And the mention of growth leads me to the final issue -- trade and economics. Here our policies are not succeeding. And in fact, I believe that both we and China risk a major setback.

Our economic goals are not so far apart. To quote the great historian Ssu-ma Chi'en, writing in the second century BC:

"There must be farmers to produce food, men to extract the wealth of mountains and
marshes, artisans to process these things, and merchants to circulate them. There is no need to wait for government orders: each man will do his part as he gets what he desires. So cheap goods will go where they fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trades, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked."

That is what China's reforms seek -- a working market economy for China's people. It is also what we seek -- a fair and open market for our goods and services.

But the Agriculture Ministry, whose policies on wheat and citrus violate our 1992 Market Access Agreement, fears a backlash from farmers. Industrial ministries own companies, joint ventures and "pillar industries" which will get competition from foreign firms. "Red capitalists" might lose concessions from their relatives in the government, and all the rest. And political conservatives simply dislike the idea of opening the country.

And our policies have not overcome this resistance. Since our Intellectual Property Agreement in 1996, we have backed away from using our trade laws and threats of retaliation, hoping China's leaders can make the bureaucracy accept a commercially fair commitment to join the World Trade Organization. And the only result so far is a nebulous commitment on information technologies.

The realities of trade with China are even worse. Counting goods and services exports to Hong Kong and China together, our exports to China have grown by only about $4 billion since 1994. This is while China's economy grew by 40% and China's exports to the United States grew by about $25 billion. Or to use a different comparison, our exports to Japan are up $30 billion in the same period, during Japan's worst recession since the 1930s.

To be fair, we cause some of our own problems. The business community is still finding its way -- PepsiCo's drink "7-Up" was apparently first translated into Chinese characters that read "death through drinking." Our government maintains outdated sanctions on export promotion programs and carries out annual MFN reviews. And we are not aggressive enough about holding China to its commitments -- particularly the 1992 Market Access Agreement. But these things pale next to the persistent trade barriers we see in China.

By comparison, China may feel the status quo is pretty good. It violates trade commitments without sanction. Its exports to the US grow not just by leaps and bounds but by pole-vaults. Its economy continues to expand. Its ministries can think over WTO accession at leisure, with no penalties for delay. And the result could be several more years of inconclusive negotiations; growing frustration here, especially if our economy turns down; and China's WTO accession becoming an issue in our next Presidential campaign.
NEXT STEPS

So it is not good enough to wait for China to reach internal consensus on WTO membership. We need to show China the status quo is not acceptable. And I propose four steps to do it.

One, China must have a material incentive to enter the WTO. So the Administration should endorse, and Congress pass, a law to make permanent MFN status automatic when China enters the WTO.

Two, China must have a moral incentive to enter the WTO. So with our bilateral talks on Taiwan's WTO membership complete, the Administration should push for Taiwan's rapid entry into the WTO, regardless of where talks with China stand.

Three, China must see a price for unnecessary delay in entering the WTO. So if we are still stagnating after the President's visit to China in June, we should open a broad market access case under Section 301 of our trade law. It should begin with the areas where China is violating our 1992 agreement, and set a deadline with sanctions to follow if they do not shape up.

ASIA'S FINANCIAL CRISIS

And four, both we and China must realize that the status quo has great risk.

Precisely one year ago, in April 1997, the President's Commission on US-Pacific Trade and Investment noted that:

"In 1997, outside of Japan, the Asia Pacific economies are expected to grow at three times the rate of the American economy. For some time, these markets are likely to continue to expand much faster than the more mature US economy or the markets of Europe and Latin America."

And the Commissioners -- including many of the great and wise, everyone from auto company CEOs to labor leaders, academics, Administration officials and Charlie Trie -- concluded:

"A second 'American century' is about to begin. This time, the opportunities for prosperity lie across the waters of the Pacific."

I don't mean to single out the Commissioners. Lots of people said things like that. Businessmen. Administration officials. Academics. Me. Except for a few in the press -- especially Businessweek and the Economist -- nobody saw the crisis coming.

And that is understandable. We had seen the skylines of Bangkok, Jakarta and Kuala Lumpur rebuilt. Poverty-stricken rural nations all over Asia astonishing the world with their work ethic. The growth of an affluent new society. Immense material and social progress, with lower
infant mortality rates, higher literacy and a better life for most of the people of these countries.

These achievements are real. I believe this year's doomsaying about Asia is at least as overstated as last year's boosterism. But in hindsight, we see that with the good things came corruption. Unhealthy ties between government and business. Bad loans. Bad debts. Property bubbles. Ultimately a financial explosion.

We can be forgiven for missing this once. Everyone makes mistakes. But we should not be forgiven if we don't learn from them. And that is nowhere more true than in China.

A CHINESE BUBBLE ECONOMY?

Today's China is not so different from yesterday's Southeast Asia. We see improving standards of living. Job opportunities. Social progress and a better life for vast numbers of people. Growth and unbounded optimism. That is all true. But we also see, that, to paraphrase Chairman Mao, the East is in the red.

We see bad debts. One economist tells me the value of all China's state enterprises could hit zero this year; and at 22% of GDP, China has a higher proportion of bad debts in China than in Thailand before the crash.

We see nepotism, corruption and intimate ties between big business and the state.

Property bubbles in the big cities. The Mayor of Shanghai said last year that one in every six construction cranes in the world is in Shanghai.

Dissatisfied foreign investors. The European Commission's recent survey of European businesses in China found, for example, that over 60% feel they overestimated China's market potential, and most plan to invest less in China in the next few years.

And intense new pressure on Chinese exporters from Southeast Asian competitors, whose goods cost half what they did last July.

THE OPPORTUNITY

So China is at least vulnerable to the same kind of crisis that hit its neighbors last year. But it has some advantages its neighbors did not. It has more fixed investment and less short-term debt than its neighbors. It has larger foreign currency reserves. And most important, it has had an early warning.

In the next few years, China can stabilize and open its financial system to the world. Reduce subsidies and break the links between ministries and their semi-privatized profit-making offspring. Promote open competition at the expense of rigged markets. And ultimately prevent a financial crisis.
These are precisely the reforms advocated by the IMF. They are ending the panics and beginning to revive the economies of Southeast Asia and Korea. They could ensure China's prosperity for years to come. And they are, in large part, what we seek to accomplish through trade policy and the WTO accession.

The consequence, if we succeed, will be a China which continues to grow. But whose financial system is sound. Whose growth is stable. And whose economy and society are governed more by the rule of law than the rule of power.

And if China understands that these reforms will not only get it into the World Trade Organization but also prevent a disaster, we may just get the job done soon. That would, of course, make China a better market for Americans. But more important, it would be a better place to live for Chinese, and a better strategic partner as we look to the new century.

CONCLUSION

That is the prospect before us.

We have had a pretty good year in China policy. We have a sound understanding on the most important strategic issues. On more specific questions of human rights and weapons proliferation, we at least narrowed the differences. Our relationship is good enough that the heroine of the latest James Bond film is a glamorous Chinese spy.

This year, if we show some nerve and some vision, we can help China avoid a crisis and put our trade relationship on a fair and balanced foundation. And this will complete our Asian strategy for the next century. Alliance with Japan. Democracy, security and ultimately unity in Korea. Growth and political integration in Southeast Asia. And partnership with China.

If we succeed, the consequence will be enormous.

In the next decade, we can create the strongest guarantee of peace in the history of modern Asia. Watch trade and commerce grow beyond our imagination. Push science, medicine and environmental protection further ahead every year. And give the next generation -- of Americans, of Chinese, of every Pacific nation -- a decent world to live in.

In the last decade, we worked together; prevented a disastrous confrontation with China; and helped make this prospect possible.

Now we have a chance to make it real. We must not lose it.

Thank you very much.
Jesse Pannoni  
**home:** 119 3rd St. NE  
202-543-0904  
**work:** 511 Hart Senate Office Building  
202-224-2007

Sat. June 13  
Arrive 1:22 AM  
Travel to Charlottesville, UVA, Monticello  
(there may be a Capital's Hockey Game, if so postpone trip to Charlottesville)

Sun. June 14  
Eastern Market (DC's Farmer's Market)  
Pannoni's Drive around DC Tour?  
Visit Union Station (Mall near my house, really cool)

Mon. June 15  
8-12 a.m. I have to work, you should visit the Smithsonian Air and Space Museum  
Independence Avenue and Seventh Street, SW  
Meet for lunch  
Supreme Court Tour, be there by 1:45  
1 1st St NE (202) 479-3000

Tue. June 16  
8-12 a.m. I have to work, you should visit Smithsonian Museum of Natural History  
10th Street and Constitution Avenue, NW  
Meet for lunch  
Visit National Archives (Dec. of Ind., Constitution, etc.), Constitution Avenue side of the National Archives Building (between 7th and 9th Streets, NW)  
6:00 Shakespeare: All's Well That Ends Well  
Carter Barron Amphitheater 202-334-4790  
16th St. & Colorado Ave NW, Bring picnic, no coolers, picnic baskets or alcohol, use bag and plastic cups dont forget blanket to lay on  
10cent Chicken Wings at Capital Lounge, Penn. and 3 St. SE

Wed. June 17  
MT Breakfast with Max, 8:15 am  
Pannoni's VIP Tour of the Capital  
travel to Baltimore  
National Aquarium, closes at 5:00  
Orioles game starts at 7:35, come early for batting practice to catch balls

Thur. June 18  
Whitehouse Tour be there at 8:00 am NEED TICKETS FROM NANCY  
Kennedy Center: The James Bazen Big Band  
12:00 at the Millennium Stage at the East Front of the Capital Grounds  
FBI Tour, be there by 2:30, 935 Pennsylvania Avenue, N.W.  
BEP Tour, be there by 3:40, 14th & C Sts., SW NEED TICKETS FROM NANCY  
confirmation #5647

Fri. June 19  
Monument Tour, be there by 8:00 am, lasts until 3-4  
Dept of Interior, 18 and C: 1849 C St NW (202) 208-4743

Sat. June 20  
Matinee: X-Files The Movie at the Union Station Theaters
Sun. June 21

Mon. June 22
Flight at 6:40 AM

Things to do in DC:
EAT, EAT, EAT
Eastern Market, Saturdays and Sundays
Potomac Mills Mall, HUGE outlet mall
Smithsonian National Museum of American History
   Open 10 AM to 5:30 PM Daily
   14th Street and Constitution Avenue, NW
Georgetown
Ford’s Theater
National Zoological Park
   Grounds open 6 AM to 8 PM. Buildings open 10 AM to 6 PM
   3000 Block of Connecticut Avenue, NW

Things to bring:
Video games I need to copy, I really want these so make sure Ryan brings them: WarcraftIII, Sole
   Survivor, Total Annihilation disks 1 and 2, Masters of Orion2, Ages of Empires
My Bike, a bike shop can disassemble and package it for you,
   my bike lock, its U shaped and somewhere downstairs
Do Not bring my golf clubs, they can wait, I wont need them for a while
Sheets that I can keep, there are some downstairs with my stuff but I may need more,
   I have a full size mattress
Towels that I can keep, I only have one total of my own
Everyone needs a set of dress clothes to wear for dinners and the MT breakfast
umbrellas in case it rains
comfortable walking shoes,
wheelchair for Barce
my 3 photo albums located downstairs