7-15-1998

U.S.-China Business Council (2)

Max S. Baucus
Senator * or Department*: BAUCUS

Instructions:
Prepare one form for insertion at the beginning of each record series.
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Record Type*: Speeches & Remarks

MONTH/YEAR of Records*: July-1998
(Example: JANUARY-2003)

(1) Subject*: U.S-China Business Council
(select subject from controlled vocabulary, if your office has one)

(2) Subject* Trip to China and U.S-China-International relations

DOCUMENT DATE*: 07/15/1998
(Example: 01/12/1966)

* "required information"
Remarks of Senator Max Baucus  
U.S.-China Business Council  
July 15, 1998

Preliminary:

I. Good Afternoon...

II. Acknowledge/Thank Bob Kapp, President, U.S.-China Business Council  
Recognize Richard Brecher, Former Executive Director, U.S.-China Business Council

Opening:

As you know, I recently returned from accompanying President Clinton on his 9 day trip to China. It was my fifth trip to China and as the most senior member of Congress on the trip, I led the Congressional delegation.

I'd like to take this opportunity today to share with you my candid insights on

- China, its people, its economy, and its outlook for the future
- The Chinese political leadership and their attitude toward future relations with the U.S.
- The prognosis for opening doors to more trade between the U.S. and China
- What our U.S. policy should be on MFN and WTO
- And some reflections on my work to foster greater bipartisanship in our U.S. foreign policy debates in Congress and in the U.S. Administration.

China Trip:
1. Chinese people: their economy and their outlook for the future

- Very open to, and like, Americans
- Americans seem open, honest, direct compared to others
- Open to personal freedoms
- They don’t look like oppressed people
- Upbeat attitude in streets, less so in countryside than in cities
- Enjoy better living standards than 10 years ago
- They believe their quality of life will continue to improve
- Very confident
- Chinese want security, want to be friends of U.S., see their future hooked to U.S.
- Economy doing well
- Zhu felt growth rate next quarter would slip to 6 or 7 percent with currency crisis, our analysts put it lower
- Albright visit to Japan good, China critical of Japan’s failure to address their economy, concerned that Zhu would not call Hashimoto
- I sense other Asian countries not wild about taking on Japan, want U.S. to do it

2. Chinese Political Leadership and their attitude toward their future relationship with the U.S.

- Chinese leadership and U.S. government made great efforts to make trip a success
- Jiang allowing uncensored TV news conference was historic step
- Forums and round-tables were definitely open
- Jiang knew this was the most important state visit
of his presidency
- Chinese leadership wanted to debunk myths about Chinese people
- wanted to overcome Tianamen stigma
- show economic progress
- My meetings with Chinese political leadership
  - Leadership was impressive
  - Shanghai Mayor Xu Kuangdi (Shu Kwong Dee) very direct, admitted river cleanup problems
  - President Xiang Zemin, strong and secure, not afraid of open press of visit
  - Premier Zhu Ronji
  - Military Attache General Eichenberry
  - Ministers of Trade and Agriculture
    - trade
    - TCK, commitment of scientists to visit U.S./Montana

3. The prognosis for opening the door to more trade between the U.S. and China

- Trade is crucial to U.S. business
- Chinese are taking MFN for granted, believe they’ll get always get annual unconditional extension
- Chinese want permanent MFN, but feel they can deal with mischievous attempted conditions, know they’ll never be adopted
- This year, MFN will be okay in House
- I’ll work to make sure it passes in Senate
- WTO lots of backsliding. Not going well.
- Chinese seem to have calculated that opening up is too much
- $60 billion trade deficit, may reach $100 billion by end of century
- I pulled out copy of U.S. Constitution — showed them trade policy is prerogative of Congress, not
President

- Barshefsky made clear WTO will be on economic terms, not political terms.
- China must make progress in transparency, high tariffs, agricultural barriers, halting piracy, simplifying its bureaucracy.

4. Reflections on my work to foster greater bipartisanship in our U.S. foreign policy debates in Congress and the U.S. Administration

- Regrettable no Republicans went on trip
- Lott's calling for Independent Council adds fuel to fire
- I have organized a group of bipartisan Senators
  - Hagel is Co-Chair
  - Meet to come up with ways to leave politics at the water's edge in dealing with foreign policy
    - Sanctions (serve on task force)
    - MFN
    - Fast Track

Close:

And I look forward to your questions so we can exchange clear ideas on how we can enhance the future of Sino-American relations.
Remarks of Senator Max Baucus
United States-China Business Council
Wednesday, July 15, 1998

Good afternoon everyone and welcome. I am pleased to have the opportunity to share with you some of my reflections about my trip to China with President Clinton. I also want to talk about why I think it is important that we continue on a road toward strengthening our strategic relationship with China.

Before I begin, I would just like to take a moment to thank my long-time friend, Bob Kapp, who has done a masterful job as president of U.S.-China Business Council. Your work has made a real difference in improving Sino-American relations.

Let me also recognize the Council's long-time executive director, Richard Brecher. As you all know, Richard has recently moved on to new things. But let me say that his work on MFN status and trade with China has been irreplaceable ever since the MFN debate began. He deserves our thanks and applause.

Let me now move on to the topic at hand.

President Clinton's visit to China was the first presidential mission since 1989. An event like this offers us a chance to ask ourselves the basic question: What do we want our relationship with China to be?
Our goal should be to encourage China to adopt the standards that most of the world accepts. And these include human rights and the rule of law at home; reciprocal open markets; restrictions on weapons sales; and cooperation on the crucial security issues. Adopting these values are in China's best interest, as well as our own.

Easier said than done.

Some fundamental issues remain unresolved. China still, I believe, hopes to enter the world economy without fully opening itself.

While I believe most Chinese are enthusiastic about a warmer relationship, I still think the country has not budged on many of the critical issues. And certainly the American public and Congress is not confident about China's long-term intentions.

But that said, the trends in most major issues are in the right direction. And our task, then, is to encourage them. And engagement with China, including events like the Presidential visit, is a means to that end.

Critics have asked whether the trip was worth it. I would reply with a resounding yes. Let
me tell you why.

This trip succeeded because it built confidence at the highest levels of government. Confidence that will allow us to manage our problems before they erupt into crisis. And this trip is helping us work out complicated issues, such as China's efforts in the trade arena.

Before the trip, I stated my belief that engagement with China was a means to an end. I think now — more than ever — China needs the United States to help bring it into the 21st Century.

That's my observation from this trip and previous trips to China.

OUR ACCOMPLISHMENTS

This trip proved that if we engage China, as the president and delegation did, we can speak directly to the Chinese people about the importance of creating strategic partnerships and about American values.
By going to China, the president delivered our message — a message of democracy, freedom, human rights, free markets -- to hundreds of millions of Chinese people. That was historic. It was a powerful symbol that demonstrated very publicly our expectations for reform in China.

As the leader of the congressional delegation, I had the chance to meet with Chinese officials and experts who shared their candid views about the state of our relationship. From the Chinese military officers at the National Defense University to the students at Fudan University in Shanghai, the theme of this trip could best be summarized as "knowledge is power." And so we and the Chinese must continue to gain knowledge from each other, to develop a mutually beneficial dialogue about each other and about our still-fledgling relationship.

CHINA TRADE AS AN ECONOMIC ISSUE

What did I personally learn on this trip? Trade continues to be a big problem. Huge. Getting worse.

To date, our goal has been to open trade through a successful WTO accession, which would further open the Chinese market to our goods and services.
At the same it would allow us to move forward on full normalization of trade relations, including permanent Normal Trade Relations status (formerly called Most Favored Nation trading status).

That is the right goal. But negotiations have stalled. In fact, we have lost ground in terms of our market access. During my visit, I pressed the issue of trade at every level — from President Jiang, to Premier Zhu, to the Ministers of Trade and Agriculture. I did this with the firm belief that we can’t afford to let China turn inward again. That we have to push to open China’s markets.

And push to eventually get them into the WTO.

This much I can tell you: the status quo will not stand.

In talks with university economists, private consultants and businesspeople working in China, it’s clear to me that Chinese officials are protecting their economy from the Asian economic flu. The Chinese worry about their economy as they lay off workers at State-Owned Enterprises.

At the same time, their tradition of maintaining a self-contained economy — producing
everything they need — looms large as we try to pry open their markets. Thus, they are backsliding in their ag sector, continuing to subsidize production and barring private firms from the distribution network.

The bureaucratic inertia on WTO accession and opening markets was frustrating to me, the congressional delegation and American officials on the trip. It’s clear we’re far from our goal of getting them to move. And as U.S. Trade Representative Barshefsky said to the American Chamber of Commerce in Beijing, WTO accession won’t be on political terms. It will be on economic terms — when China makes progress on transparency, high tariffs, ag barriers, halts piracy, and simplifies its bureaucracy.

Without significant movement on these issues in the future, the good feelings between our two countries will dissipate and our relationship will crumble.

That said, we must capitalize on the momentum created by the trip to improve our trade relationship. The Chinese got a lot out of this trip. Now they need to reciprocate.

What can we do to get China to move toward WTO accession.

We need to be respectful -- and tough. Tougher than we have been in the past.
Most of the reforms we hope to see in the near future include: lower tariffs and quotas, with a particular emphasis on the rule of law; fewer subsidies; and a more open and market-driven economy. But how do we achieve these modest goals? There are three levers.

First, China must have a material incentive to enter the WTO. I still believe that the Administration should endorse, and Congress pass, a law to make permanent Normal Trading Relations status automatic when China enters the WTO.

But is China ready to enter the World Trade Organization this year, next year or in the next decade? They’re not acting like it. China’s ministries seem to be thinking over WTO accession at leisure, with no penalties for delay.

Those of us who support engagement with China are finding ourselves increasingly frustrated with a country whose Great Wall is more than just a world wonder. It is a brick wall we keep running into. I told them in no uncertain terms that they need to lower their barriers, or there will be repercussions.

Some have argued we should lower the bar for China to enter the WTO. That’s a bad
idea. If we allow them to enter on lesser terms now, when they are backsliding, we would be offering them incentive to wait longer. China’s accession must reflect real reform.

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

We know from history and our recent trip to China that officials there are very sensitive about Taiwan, and our relationship with that country. We know that China has opposed Taiwan becoming a member of the WTO before it does.

But, as you know, Taiwan has willingly worked toward WTO accession, and made all the necessary concessions to become a full-fledged member. They want to play ball. We can get China’s attention if we press for Taiwan’s immediate WTO accession -- demonstrating that China’s delay has a cost.

And the third lever we have to initiate reform: China must see a price for unnecessary delay in entering WTO. So we should keep the option of opening a broad market access case under Section 301 of our trade law nearby. And, we need to let China know that we are serious
about invoking Section 301 if they don’t move forward on market access.

The good feelings engendered by this trip can continue. But China must go beyond a fundamental basic interest of avoiding conflict and become a responsible international player that can address issues that further promote peace and prosperity. There is much room for improvement.

CHINA AS A POLITICAL ISSUE

Our relationship with China is also political.

Certainly those of us in the U.S. Senate who have been long-time advocates of Normal Trade Relations (or MFN) with China are getting fed up. The lack of progress in market access, distribution and our alarming trade deficit have done nothing to deter our critics.

Moreover, with congressional division over trade and our China policy, future engagement with China -- including WTO accession -- may become a divisive issue in the 2000 presidential campaign. The consequences of that are hard to predict.
But ever since the 1950s and the "who lost China" debate, when China policy has become a political issue, the consequences of politicizing the China issue have generally been bad.

That doesn’t mean we should stifle debate on our China policy. Just that we do it in a productive fashion and not get swamped in partisan bickering and political one-ups-man-ship. That we do what’s right to secure American interests.

Few foreign relationships affect the American people as much as this one. It’s important that we get it right.

CONCLUSION

Finally, we -- in Congress and the American public -- need to reach an agreement on how we treat our China policy. That essentially means when we reach a basic consensus on such a policy that we do not then play political games with it.

I believe that Congress must work on a bipartisan basis to develop a comprehensive, rational and insightful China policy as we wrap up this Congress and enter the 106th. Senator Hagel and I are co-chairing an ad hoc group of senators who think that America needs a
bipartisan foreign policy. One that is constructive rather than destructive. One that has America's best interests at heart, rather than politics at its root.

Our bottom line is the same as former Secretary of State James Baker's: Let's do what's best for America. Let's work together — Congress and the executive branch. Democrats and Republicans.

For the American public, I would offer the challenge of taking a more active stand in encouraging Chinese reform. Those of you here today have set a fine example of finding a niche in a neophyte marketplace. However, I would ask you today to think out of the box. That is to say: ask yourself how your enterprise can contribute to China's internal development?

Can you clean up the environment by investing in clean technologies? Can you promote human rights by setting higher standards in labor practices? Can you enlighten by education? Lead by example?

And if you do that, what do you get in return?

A healthy China that is ready for accession to the World Trade Organization on a mutually
acceptable basis and a market that is ready, willing and able to do business.

Together, as we engage China, we must keep American values and interests in mind. We need to show the Chinese that we want to be strategic partners on security issues. We must expect that they will improve their environment and human rights records. And, we must demonstrate over and over again that we are serious -- firm and tough -- about gaining access to their markets.

Through this historic trip, we advanced America’s interests. We didn’t get all we wanted. For a country that has more millennia under its belt than we have centuries under ours, progress is bound to be slow.

But we have significantly improved our relationship with the world’s most populous nation. And engaged them in a constructive dialogue that I hope will bode well for America, China and the world.

Thank you.

Now I will take questions.