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## Congressional Economic Leadership Institute

Max S. Baucus

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Senator \* or Department\*: **BAUCUS**

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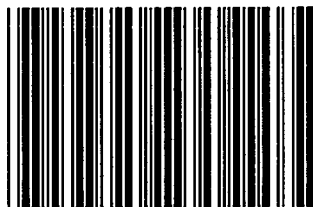
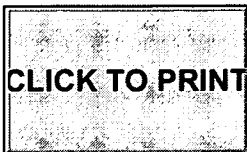
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(2) Subject\* **Trip to China and U.S-China-International relations**

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BAUCUS

**Remarks of Senator Max Baucus  
Congressional Economic Leadership Institute  
July 22, 1998**

***Preliminary***

- I. Good Afternoon...
- II. Acknowledge/Thank - John Weinfurter, president of Congressional Economic Leadership Institute  
Also thank CELI

***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, it's 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's 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
- ▶ They wanted to overcome Tiananmen 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 Rongji
  - ▶ 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 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 Counsel 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 - Cautiously optimistic will pass in House; vote should be today; observers say could be 10 to 20 fewer Republican votes for and 3 to 5 more Democrats voting for it; last year passed in House with 259 votes; Repubs concerned about allegations of technology transfer and human rights. Demos pleased with President's trip and his work on human rights.
    - ▶ Fast Track - Becoming political issue in election year. Don't see it passing in House this year. Could lose votes, in fact, over last year's vote. Some observers worry that this will divide parties and wonder why it can't be voted on early next year.
    - IMF replenishment is moving in the House, which is a good sign, given crisis in Asia and the need to help spur ag

- ▶ demand at home.
- ▶ All these issues -- That's why important to work in bipartisan manner on foreign policy/trade issues.

## ENVIRONMENT

- One final note before I conclude.
- Spoke in Guilin with environmentalists and the president
- Told Chinese in Kyoto and China that they must cut pollution
- They have 5 of 10 most polluted cities in world
- We can help them with our environmental technology
- During summit, U.S. and China established programs to address environment and cleaner uses of technology
  - Under auspices of Framework Convention on Climate Change, senior-level experts of U.S. and China will begin talking on climate change
  - U.S. will cooperate with China on its Nationwide Air Quality Monitoring Network using U.S. equipment and technical assistance grant from EPA
  - U.S. and China will hold energy finance conference in September 1998 to promote trade and investment by U.S. firms in China's energy sector.
- We're making positive progress in this sector.

## 5. Conclusion:

Our permanent goals are:

- ▶ Maintaining stability
- ▶ Opening reciprocal markets
- ▶ Restricting weapons sales
- ▶ Communicating on crucial security issues
- ▶ Future issues — environment and enviro-tech sharing

Thank you very much.

Now I look forward to questions so we can exchange ideas and ways to enhance Sino-American relations.



## US-China Business Council Notes—July 15, 1998

Chinese seen to want security. Want to be good friends of US. See their future hooked to US. Work on strategic issues like weapons of mass destruction. And with US on India and Pak. (Should get latest info here. Same in other areas, such as enviro tech transfer) Leadership very impressive. Jian Zhu and Xu, Shanghai mayor (get correct name). Are taking MFN for granted. Know they'll get indefinite annual unconditional extensions. Take us for granted. Would prefer permanent, but feel they can deal with mischievous attempted conditions, knowing they'll never be adopted. Backsliding on WTO. Not going very well. Seem to have made a calculated decision that opening up is too much. \$60 billion trade deficit many reach \$100 billion by end of century. Congress not like. I pulled out copy of const showing it's cong that makes trade policy, not the president, showing once an agreement with US president it's not a done deal, often, until the the congress approves, at least in trade matters. Many feel their leadership does not fully understand US political system. Certainly view of Dan Glickman. Regrettable that no R's attended. Mistake. Also mistake to continue to criticize president on foreign policy matters as Lott now is saying interim conclusions justify appointment of an independent counsel. National press seemed won over by trip. Sam Donaldson not asking about Monica Lewinsky. They must have sensed openness and willingness of Chinese people to Americans. And to freedoms. Certainly personal freedoms. Don't look like a people oppressed by governments. Upbeat attitude of so many people on streets. Less so in countryside; more in cities. Chinese like Americans more than any other nationality. We're open, honest, deal straight compared with others. Have no history of invading other countries, certainly less than Japanese. Only conflict was in Korean peninsula. Economy doing well. Zhu felt growth rate next quarter might slip to 7% or maybe 6% with currency crises. Our analysts put it lower. Yet, most everyone in country sees better living standards than ten years ago. See improvement. See it will continue. Thus they're uppers, confident, not downers, not confident. US press must have seen that as well on their faces. Open forums were definitely open. Roundtables. Environmental, policy people as Shanghai library. Liked directness of Shanghai mayor, Xu, who when I said you must be proud, said, but we have so many problems. Plan to have river cleaned up in 10 years. Chinese went to extraordinary lengths to make trip a success. From Jiang opening up entire country to uncensored tv news conference, to tightest security ever. Rivers shut down both the Yangtze as well as river near Quilin. Chinese snipers and security in all Yangtze buildings along river unlit. White House planned this trip to the hilt. Knowing this probably more important foreign trip for remaining years of his term. Worked hard to debunk myths of China. Tiananmen for example. Wanted to show American people other sides. Beginning in Zi'an, the ancient capital, showing off terracotta statues. Then to Beijing, Shanghai and entrepreneurs then ending in HK, trying to show progress, from beginning to higher ending. Six in delegation a strong coherent unit. Dingell said best ever. We stuck with market access. Saying those of us in US pursuing constructive engagement are having a harder time over trade. Pres, Rubin, Albright more on strategic issues. AS if we're delegated the black hat. Certainly on trade. Strongly recommend members of congress go on future trips. Hope president invites. A bit of additional work, but well worth it. Taiwan very touchy. President make only slight slip. National Defense Institute one of most interesting stops on my trip. Yes, that's our policy. Very impressed with our military attache gen Eichenberry. Impressed with energetic Amchams in Beijing, Shanghai and HK. Not sure where we take things from here. Sect state visit to Japan

for press  
better

good. China very critical of Japanese failure to address Japanese economy. Concerned that Zhu would not call Hashimoto. Sense other Asian countries not wild about taking on Japan. Let the US do it. Our paramount goal: maintain stability; economic, strategic. Address future problems such as environment and enviro tech sharing.

- explains US history - founded by dissidents
- Pick + choose what you want.
- Still too much polarizing by U.S. Tone + use of words.
- President press conference masterful - genius

\* [ "Personal + political freedom makes us sharper - that's our experience. Unleashes."

- Able to so state at Fudan. Did so. enthusiastically. Well received.

\* [ = More ed, more services, more organizing, more rule of law - after engineers. Tech transfer

China leap as US. Industrial and post industrial together.

# United States Senate

COMMITTEE ON ENVIRONMENT  
AND PUBLIC WORKS

## US - China Bus Council

- Moving toward U.S. - World B.C.
  - . Russia fin instability
  - . SE contagion
  - . All concerned w/ Japan.
- IMF ↓ Japan tank - Gen. Agreement to Renew
  - . LDP defeat wakeups call
- Russia
  - 6500 nuke weapons deployed
  - selling off to require nations
  - collapse reverberate back to others.

JOHN H. CHAFEE  
CHAIRMAN

# United States Senate

COMMITTEE ON ENVIRONMENT  
AND PUBLIC WORKS

- genie is out of the  
bottle.

## TOUGH QUESTIONS

### Q1. What is your position on Taiwan?

A1. Taiwan is a sensitive issue with China. Before I left, I met with representatives of the Taipei Economic and Cultural Representative Office in the United States. The representatives, including Stephen Chen, said they want to be sure that relations with China don't come at the expense of relations between the United States and Taiwan.

I agree. We need stability in the relations between China and Taiwan. Talks between the two countries are good. President Clinton reiterated what is written down in the Taiwan Relations Act. That commits us to ensure the security of Taiwan. I agree with that act. And I agree that we should not make deals at the expense of Taiwan. The Taiwanese representatives were acutely sensitive to this issue when they spoke to me before I went to China.

I also support Taiwan gaining entry in the World Trade Organization. I supported their entry in the General Agreement on Tariffs and Trade. And I support their entry into the WTO.

I think we should encourage Taiwan's accession to the WTO, given Chinese officials' reluctance to move forward on market access and WTO issues. Our greatest tool in bringing about reforms is China's desire to become a member of the World Trade Organization. They still have a long way to go. Their recent backsliding on market access issues means it will take longer for them to enter the WTO. The Chinese seem to have calculated, in the midst of economies faltering around them and the downsizing of State Owned Enterprises, that opening their markets would be too much for their economy and people to withstand at the moment.

They may be right. But that doesn't mean we should stand idly by and let their \$50-billion trade imbalance balloon to a \$100-billion imbalance by the end of this century. We need to be respectful — and tough. We need to show China that it does indeed have a material incentive to enter the WTO; that the U.S. will automatically extend Normal Trade Relations status when China joins the world trade body. We also can encourage China to enter the trade body by pushing for Taiwan's rapid entry into the WTO, regardless of where talks with China stand. And, finally, we can make China pay a price for unnecessary delay in entering the WTO, leaving open the option of opening a broad market access case under section 301 of our trade law. These are all sensible ways of promoting change in China, without fracturing an already delicate relationship.

### Q2. What do you think of legislation aimed at China?

What we have to do is reach consensus on our China policy, and stop playing politics with it. As you know, it's an election year. One of the reasons we have a hard time on the trade front is because some nations think that we can't be trusted. That we capriciously

slap sanctions on countries whose policies we don't agree with. We need a constructive, comprehensive engagement policy with China that shows the Chinese and the world that we are serious and in this for the long term. That we don't willy-nilly pass laws without giving our policy real thought.

Former Secretary of State Jim Baker made just that argument a couple of weeks ago in the Washington Post. That doesn't mean we squelch debate when we craft our foreign policy. But that we work together — in the best interests of America and its interests when we make our policy. In an election year, that's especially hard to do. But that doesn't mean we shouldn't try.

**Q3. What are the prospects for Most Favored Nation trading status with China? Will it be permanent?**

A3. As I said earlier, China didn't make progress on market access and trade during this trip. They won't get permanent MFN until they enter the WTO. Their lack of progress on opening their markets on the trade front was frustrating to us. Our patience is wearing thin. We have to remain tough, however.

U.S. Trade Representative Charlene Barshefsky and I said repeatedly, and I think the president said so too -- No permanent MFN until WTO. And no political WTO. Only commercially acceptable WTO with acceptable time lines.

I also have the impression that the Chinese think annual extensions of MFN are in the bag. I don't think we'll really not extend MFN. I don't like the annual mischievous opportunities annual extensions provide.

But as I told the Chinese, they have to start making some progress on market access issues or they will face political repercussions in the Congress. They gained a lot from this trip. And now they have to reciprocate.

That said, I think they're doing better on proliferation issues. But they're slipping backward on market access. Backward insofar as they're not pushing WTO as much as earlier. It seems that they've made conscious decision to put market access on back burner. I and the rest of the congressional delegation emphasized repeatedly that congressional patience is wearing thin. I pointed out it's Congress that sets trade policy under our constitution. I don't think enough people in China understand that. Personally, my patience is wearing thin, too. It's been 25 years that they've not imported any Pacific Northwest wheat.

Overall, I think we have to be firm. MFN should not be repealed with China. Yet, it also should not be permanent until they've opened up. I see virtually no sign of that so far.

All American Chambers of Commerce that we visited also are upset at how little market access we have to China, along with distribution restrictions. Charlene Barshefsky says

WTO talks are going very slowly.

One businessman asked me what leverage we have. I could only respond with section 301. It's a problem.

I am cautiously optimistic MFN will pass in the House today. Some observers say 10 to 20 fewer House Republicans will vote for it, and up to 5 more Democrats will vote for it. Last year, it passed the House with 259 votes. I will be a little closer this year. From what I've heard, Republicans who may switch their votes are concerned about allegations of technology transfers and human rights issues, while the Democrats who might change their votes are pleased with the President's visit to China and his advocacy of human rights in China.

**Q4. Why are they moving so slow on WTO?**

A4. I think it's a combination of factors.

They're trying to maintain the stability of their currency.

Trying not to rock their economy more than they have to as they downsize State-Owned Enterprises.

Other Asian economies — Japan, South Korea, Indonesia, Thailand — are hurting. We need China to maintain some stability in an economically volatile region.

They also have made the decision to protect their ag sector by subsidizing grain production and barring private concerns from the distribution network.

This is all being done to protect their economy as the economic and financial flu continues to run through Asia.

The question is: How hard do we push? We need to push on trade and market access issues. But we don't want to tip the world's most populous nation into a recession while other major countries — like Japan, with the world's second-largest economy — are trying to dig out of economic trouble.

**Q5. What about Fast Track?**

A5. It likely won't pass the House. Senate Republicans are bringing it up in the Finance Committee. But I don't think they have the votes in the House. Some are saying there will be fewer votes for Fast Track in the House this year than last year.

The House now seems intent on moving quickly on MFN, fast track, and funding for the International Monetary Fund. I think we should move on MFN and replenishing the IMF — moves that will help us domestically and internationally. But to take votes on fast track — when the votes aren't there in the House — seems more to be a political ploy.

I'm a free trader and support giving the president fast track authority. But I don't want to beat this issue into the ground if the votes aren't there just to make a political statement. We need to make the case for fast track. And it hasn't been made so far this year. It seems to me some in Congress are trying to beef up their internationalist reputations.

**Q6. What is our next step with China? How do we get them to open up markets?**

**A6.** Our next step is we don't give them the opportunity to blame their failure to accede to the WTO on the need for internal reform. That means we go back and continue to pressure them to make the reforms that will open their markets. We're doing just that right now by investing in their infrastructure — environmental cleanup, telecommunications, their rule of law, higher labor standards, promoting a freer market and more liberty. By helping them stabilize internally, we only up the ante for China entering the 21<sup>st</sup> Century.

We need to develop a strategy for the 106<sup>th</sup> Congress. Let's sit together — business, academics, politicians — and begin mapping a strategy to ensure that China will enter the 21<sup>st</sup> Century more committed to open markets, more committed to recognizing human rights, more committed to ensuring peace in the region and world, and more committed to cleaning up its environment.

Personally, I'm going to do my share to keep the pressure on. We need to keep the pressure on and the door open.

- ▶ I'm hosting a delegation of 25 Chinese environmental experts for the Mansfield Pacific retreats in September in Montana.
- ▶ I'm working on the details to bring a group of scientists to the United States to find a solution to a wheat fungus that blocks Pacific Northwest exports of wheat to China.
- ▶ And I'm going back to China some time in the next year to personally continue this dialogue and work on a more individual basis with specific issues of market access.



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Priority: Normal  
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TO: chris niedermeier at Baucus-DC  
TO: max baucus at Baucus-DC  
Subject: Some CELI thoughts as promised last week...

----- Message Contents -----

Hope the markup went well this morning. With reference to our conversation last Friday, I think some interesting points for discussion at the CELI China luncheon might include --

I. Premises of US China policy

-- Most participants in debates on U.S. China policy have generally shared the premise that China will continue growing rapidly for years to come. Some have accented the possibility that this process under Communist party rule could create a strong and aggressive China threatening US interests in the region.

-- Others (like me) have felt that this would over time in foreign affairs bring China to see more of a stake in peaceful relations with its neighbors, and domestically create pressure for China to adopt the rule of law and a more open society.

II. Current situation

-- There is a long way to go before we see the truth. So far, the more optimistic assumptions have been borne out.

-- Thirty years ago, China was openly dedicated to overthrowing the governments of neighboring countries; today it is trying to help them weather the Asian financial crisis. And where it once fought us in Korea, today it is working with us.

-- At home, China is adopting laws and judicial procedures on many topics -- commercial law, customs procedures, environmental protection -- from Hong Kong and the US, including allowing citizens to sue government agencies. The Chinese press is continuously becoming more free to report on social problems, corruption etc, and in the last year academics have conducted a fairly open debate on political reform.

-- However, thus far Chinese growth has not led to the commercial opportunities businesses have predicted. China remains relatively closed to imports, and US exports to China in particular have grown in absolute terms more slowly than to any regions except the former Soviet Union and Africa. In terms of trade policy, the IPR agreements have been a pretty remarkable success, but we have a long way to go on the market access issues. Further, the WTO is advancing with or without China -- it will soon take up agriculture, services and other negotiations and if China is not in before they conclude, the talks will be even more complicated.

You might ask the business community reps there for their views on whether we push China harder, offer more incentives, etc.

III. Are premises correct?

-- We should, however, be willing to question our premises. The last year's events have shown that economic growth in rapidly developing countries can come to an end very quickly. China has some strong points -- \$140 billion in foreign reserves plus \$90 billion in Hong Kong reserves -- but also some weaknesses, including large buildup of bad loans, endemic corruption and nepotism, and property bubbles of the sort familiar in Southeast Asia. Indonesia's economy grew by 7-8% as recently as 1996 and is now set to contract by 10-15%. Is China vulnerable to the same sudden slump? If so, is its political system capable of dealing with it as the Thais and Koreans have?

-- The potential problems created by economic weakness in China -- political upheavals in a country with ICBMs, possible nationalistic abuse of public sentiment on the status of Taiwan, etc., should be thought through as well as the potential problems of a strong and aggressive China.

-- In any case, the most important task is to renew MFN status (now officially I think Normal Trade Relations). That is a signal of stability not only for China but for the Asian economies generally. And it is the only basis on which we can negotiate market access.