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CHINA IN THE WTO: WHAT WILL IT MEAN FOR THE U.S. HIGH TECHNOLOGY SECTOR?

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY, EXPORT AND TRADE PROMOTION

AND THE

SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS

OF THE

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CHINA IN THE WTO: WHAT WILL IT MEAN FOR THE U.S. HIGH TECHNOLOGY SECTOR?

THURSDAY, APRIL 6, 2000

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT AND TRADE PROMOTION
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittees met jointly, pursuant to notice, at 10:02 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Chuck Hagel and Hon. Craig Thomas, presiding.

Present: Senators Hagel and Thomas.

Senator HAGEL. Good morning. Today's hearing is our second joint hearing with the Subcommittee on East Asian and Pacific Affairs. This hearing will focus on what China's accession into the World Trade Organization might mean for the United States' high-tech industry.

On our first panel we welcome Deputy Secretary of the Treasury, Stuart Eizenstat. Mr. Eizenstat was sworn in as the office's Deputy Secretary in July 1999. Previous to becoming Deputy Secretary, he served as Under Secretary of State for Economic, Business, and Agricultural Affairs, and Under Secretary of Commerce for the International Trade Administration.

While he was with the State Department, he was the State Department's senior economic official. He advised Secretary Albright on international economic policy, and led the work on issues ranging from trade negotiations to bilateral relations with major international partners.

Welcome, Mr. Secretary. It is always good to have you with us.

Secretary EIZENSTAT. Thank you, Mr. Chairman, Senator Thomas. Thank you very much.

Senator HAGEL. I am going to introduce the second panel as well, Mr. Secretary, and then explain a little bit about our vote predicament before I ask Senator Thomas to offer his thoughts.

On the second panel we will hear from two distinguished private-sector witnesses. Although our first witness, the Honorable Frank Carlucci, has been a significant utility player across the broad spectrum of private and public life, one of the preeminent public servants of our time, Frank Carlucci is now chairman of the board of directors of Nortel Networks, a major multinational telecommunications firm. He is also a chairman and partner in the Carlisle Group, a Washington-based merchant bank, and is a member of the board of several multinational companies.

Mr. Carlucci has served with distinction with the United States Government. He served as Secretary of Defense from 1987 to 1989, as National Security Advisor in 1987, as Deputy Secretary of Defense from 1980 to 1982, Deputy Director of Central Intelligence from 1978 to 1980, and was Ambassador to Portugal from 1975 to 1978.

I understand that Secretary Carlucci has just returned, as a matter of fact, this weekend, from a trip to China, where he met with the Chinese President, and also was in Taiwan, where he met with President Lee and President-elect Chen, so we obviously look forward to hearing Secretary Carlucci's thoughts.

Between Eizenstat and Carlucci, I think we have essentially covered all Cabinet positions in the U.S. Government.

Our third witness today, Mr. Rick Younts, will be the second member of the private-sector panel. Mr. Younts is executive vice president and senior advisor to the CEO for Asian Affairs at Motorola.

Mr. Younts has been with Motorola since 1967. He has held many positions with the company, including president of Nippon Motorola in Japan. He was named executive vice president and president of the Asia Pacific region in 1997, and became senior advisor to the chief executive officer for Asian affairs in 1998. He has extensive business experience in the Asia Pacific region.

I understand that he, too, has just returned from China, so he will have some fresh insights as well. So welcome, Mr. Younts.

Let me make a brief statement, then I will ask my friend and colleague, Senator Thomas, to make his opening statement.

Today's hearing, as I mentioned at the opening, will focus primarily on China's accession to the World Trade Organization and what opportunities and challenges this may present to the U.S. high-tech industry.

The United States and China signed a bilateral trade agreement last November as part of China's WTO accession process. China has yet to sign bilateral agreements with the European Union and a handful of other countries. Once that process is complete, China's accession protocol and the working party report will be issued, and China will be ready to accede to the WTO.

The U.S. Congress will soon face a vote on whether to grant China permanent normal trade relations, [PNTR]. On Tuesday, the House leadership announced that the House will hold a vote on PNTR the week of May 22. The Senate leadership has not yet scheduled a vote.

The PNTR vote, in my opinion, will be one of the most important votes of this Congress. It is more a question of whether we want our businesses, our farmers, and our workers to enjoy the benefits of the U.S.-China bilateral trade agreement that we negotiated last November.

One of the most important international issues facing us today is how America will deal with the development of China as a new world power. We must engage China, but with our eyes wide open, and with a clear understanding of the limitations, the dangers, the realities, and certainly the possibilities of this relationship. To do otherwise would be unwise.

We must not allow the United States to become economically and geopolitically isolated from the world's largest and fastest growing market. But more important for the long term, failing to engage China might encourage it to move along a path contrary to America's interest in Asia. This is something we must avoid.

Granting China PNTR is clearly in the best interest of our country. China's entry into the World Trade Organization is inevitable. It will happen. World Trade Organization membership will force the Chinese Government to implement far-reaching domestic economic reforms and strengthen the rule of law. This is the China that we must encourage.

The accession agreements that China has negotiated for WTO entry contain wide-reaching market access provisions. America must grant PNTR to China to enjoy the benefits of these provisions. American businesses and agricultural producers will be able to compete in every segment of the Chinese market for goods and services, which we already accord to China in our own market. We give up nothing, and we gain everything.

If we fail to grant PNTR to China, our European and Japanese competitors will rush to fill the vacuum. We must not lock ourselves out.

As Congress moves closer to voting on this issue, it is my hope that our witnesses today will help shed some light on what China's accession to the WTO might mean for our high-technology industry if we grant China PNTR. I also would like to hear our witnesses' views on what it would mean for the high-technology sector in America if China accedes to the WTO and the U.S. Congress does not grant PNTR to China.

Again, I welcome our witnesses.

Before I ask Senator Thomas, who is chairman of the East Asian and Pacific Affairs Subcommittee of the Foreign Relations Committee, to share with us his thoughts, we have scheduled, at least as of 10 minutes ago, a series of two votes, beginning at 10:30.

So what we will do is get some opening statements, then we will have to call a brief recess to the hearing, and we will go vote and come back with much dispatch and high anticipation.

Like I said, this was 10 minutes ago. It has been moved to 10:40 now. So, Mr. Secretary, you have even more time than originally allotted. So we will do the best we can with what we have, where we are.

That is an old Teddy Roosevelt saying, Mr. Chairman.

Now, my friend and colleague, the chairman of the East Asian and Pacific Affairs Subcommittee, Senator Thomas.

Senator THOMAS. Thank you. Good morning to you. I am pleased to participate together in this hearing this morning. I think it is important that we talk about the imports/exports trade as well as general foreign policy as we deal with these kinds of issues.

It is no surprise, and you have already heard this, that I fully support China's accession to the WTO and the normal trading relationship. I think there are three reasons why we should do this, and without being a little duplicative here, but first of all, lots of folks, I think, in this country do not realize that we are the ones that are going to benefit.

I happened to be in China last year before the Premier was on his way over here to make the arrangements, and we talked a great deal about it. Some great things have been done in agriculture, for example. All we have to do is implement those. So we are the ones that gain. We are already providing those kinds of things, as the chairman indicated.

Of course, we will have to be very careful that there is, in fact, the dismantling of tariffs, the non-tariff barriers that we have in the past, intellectual kinds of things, and so on, so it will not be difficult.

Second, I think entry into the WTO will have sort of a soothing effect on our whole relationship, and that will be good. It seems to me that many of the problems that we experience over in that part of the world are problems that are going to take time to resolve; and if we can simply hold sort of a steady course of that over time, maybe even a generational change, why, things will change a great deal. Of course, the trade deficit is of great concern to us, and it continues to grow. We need to do something about that.

The third thing, and the thing that I feel very strongly about, is there are many things that are done in China that lots of people here do not agree with. They are certainly different than what we would do. We would like to see those changed, but I think the better way to do that is to open up with China, let them move into a new world of markets, a new world of more individual freedom. You can see that on the south China coast now. So we will do that.

So in any event, I am glad to here. High tech is one of the factors. I am also very much interested in agriculture, which is equally as important.

So thank you, Mr. Chairman, for sharing this, and I look forward to the testimony.

PREPARED STATEMENT OF SENATOR CRAIG THOMAS

Good morning. I am pleased to be participating in this joint hearing between our two subcommittees today. I'll keep my statement brief so that we can get to our witnesses.

It will come as no surprise to the people in this hearing room today that I fully support China's accession into the WTO. I do so for three reasons. First, although there are some Members of Congress who appear not to grasp this basic fact, giving China permanent NTR status pursuant to the WTO regime is not a gift to the PRC. Rather, the agreement requires China to dismantle its present system of tariff and non-tariff barriers which prevent the entry of a whole range on U.S. goods and services into that country. We are the true beneficiaries in this deal.

Second, getting China into the WTO will have a soothing effect on our relations. A major irritant in our bilateral relationship over the last several years has been disagreements with China over its inability to live up to its trade agreements with us. In joining the WTO, China will be multilateralizing any such disagreements. In addition, the trade deficit—another source of friction—will decrease since we will be able to export more goods and services to the PRC once tariffs and other barriers are lowered.

Third, by drawing China further into the family of nations, I believe we speed the process of opening it up to world economic, democratic, and human rights norms.

This is, of course, not the first Senate hearing on some aspect of the WTO agreement, nor will it be the last. But it is the first, I believe, to focus on its effects on the U.S. high technology, sector. It is a fitting topic, since clearly high tech is presently the fastest growing sector of our economy and promises to continue to be for the next several decades.

Senator HAGEL. Chairman Thomas, thank you.

Secretary Eizenstat, thank you again for appearing, and we are always grateful to have you with us.

STATEMENT OF STUART E. EIZENSTAT, DEPUTY SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary EIZENSTAT. Thank you, Mr. Chairman, and thank you, Chairman Thomas.

China's accession into the WTO is in the fundamental interests of American security and reform. It is a decision of historic dimensions, and the legislation which we forwarded to Congress to grant PNTR to China once it has completed its accession makes sure its WTO accession is on terms at least as good as those in our bilateral agreement, which we concluded in November.

In fact, Mr. Chairman, you mentioned the EU negotiations. As other countries complete their bilaterals, the terms can only get better, as we will benefit from all further concessions that China makes to other countries.

I would like to divide my testimony into four parts: The commercial benefits of accession, our stake in market reforms in China, the broader strategic case for accession, and then specific answering of critiques.

There are no sectors that will benefit more from China's accession than our high-tech telecommunications sector, as well as our agricultural sector.

First, on the commercial benefits: The case is overwhelming. We make no commercial concessions. China makes them all. This is, frankly, the most one-sided agreement that I have ever been a part of on behalf of the United States.

We will get unprecedented new access to China's markets for exports of American goods and services. Their tariffs on industrial and agricultural goods will fall by 50 percent or more in a space of 5 years. Tariffs on a broad range of agricultural goods will fall by roughly one-half, with even larger cuts for priority agricultural products in the United States. The role of state trading companies will be progressively reduced, allowing for more market-based trade.

China is committed to eliminating agricultural export subsidies which displace American exports to third-country markets and reducing domestic agricultural subsidies, which also destroy trade.

China's commitments, however, go way beyond tariff cuts, to include the elimination of sharp reduction in a wide range of non-tariff barriers. For example, American exporters will be able to import directly from China themselves, distribute within China, and offer after-sales service in ways they could not do before.

China will phaseout a wide range of restrictions and a broad range of services. For example, in banking, China has accepted full market access for branches and subsidiaries of foreign institutions, and in insurance, the Chinese market will also be progressively more open.

Some of China's biggest reductions in barriers come in the high-tech sector. This is a sector, Mr. Chairman, where China's demand will be explosive over the coming 2 years. Indeed, China may become the world's second-largest personal computer market by the

end of this year, the third largest semi-conductor market by the end of next year. In 1999 alone, the number of Chinese Internet users quadrupled to 9 million, and by the end of this year may reach 20 million.

China will participate fully in the information technology agreement, eliminating all tariffs on computers, semi-conductors, and other high-tech products by 2005. This is obviously a market where the United States is highly competitive.

In telecommunications, China has agreed for the first time to allow direct foreign investment. It will also participate in the basic telecommunications agreement, thereby accepting pro-competition principles such as independent regulatory authority and interconnection rights without discrimination.

The Chinese market for a broad range of computer, Internet, and software services, will for the first time, be open to American companies, either through joint ventures or direct service.

Again, the opening of these sectors comes at a time of a powerful revolution in information and communications technology just beginning in China. There is an enormous potential, not just for increased American exports, but for the freer flow of information.

Our own high-tech exports to China grew by 500 percent between 1990 and 1998, and that is without the kind of extensive market opening that they are granting through the WTO agreement. No amount of censorship or monitoring can completely control the explosion in information which this opening in telecommunications and high tech will provide.

In addition to this new access to China's markets, we will benefit from unprecedented provisions to protect American workers and farmers from import surges, unfair trading, and abusive investment practices, such as offsets or forced technology transfers. There is no agreement that we have ever negotiated on WTO accession that has contained stronger measures.

For example, there is a product-specific safeguard that would allow us to take measures focused directly on China in case of any import surge, including in the high-tech area, that threatens a particular industry. The agreement has very strong anti-dumping provisions, which would allow us for 15 years to treat China as a nonmarket economy.

China is required to eliminate barriers to U.S. companies that cost American jobs, including technology transfer, mandated offsets, local content requirements, and other practices that were intended to drain jobs and technology away from the U.S.

Indeed, I think in some respects, Senator Thomas and Senator Hagel, that the commitment that China has made to open up trading and distribution rights will be among the most important in protecting American workers.

The reason is that companies will no longer be forced to set up factories in China or go through Chinese Government-approved middlemen to sell their products. They can make them here in the United States. They can export them, using our own distribution networks.

We also are preparing for the most intensive and extensive enforcement and compliance effort ever mounted for a single trade agreement. The President has requested, for example, an addi-

tional $22 million for enforcement and compliance in this year's budget. And for the first time, China's compliance will be subject to multilateral enforcement under the WTO dispute settlement mechanism, which will force China to comply with WTO rulings, including cases we might bring, or be subject to trade sanctions.

The bottom line of this agreement is more U.S. exports to China, leading to more high-paying jobs for American workers.

The second point is our stake in promoting successful market reforms. The WTO accession provides a powerful impetus for China's economic reforms at a critical juncture in its economic history. It will strengthen the hand of economic reformers in China and help lock in their reform path.

For economic, strategic, and humanitarian reasons, we have an enormous stake in the successful continuation of China's economic reforms. China will be locking into place with their accession a more rapid progress of market opening and reform, and submitting themselves to global rules-based systems.

In my meetings with U.S. business representatives in Shanghai and Beijing, when I asked them what was the single most important thing the U.S. Government could do to help, they said it was to promote the rule of law. WTO accession is the most powerful way of advancing this objective. It will serve as a catalyst for broader changes that will help promote core American interests and values, and it will serve to promote the cause of human rights, worker rights, and religious freedom.

Obviously, this will not happen overnight. In the meantime, the U.S. will remain continually vigilant on human rights abuses in China, and we will continue to express our disapproval forcefully whenever rights are abused in China, as we are doing this very moment, in the Human Rights Commission.

Some Members of Congress have considered the annual review of China's PNTR status as a useful opportunity to review the human rights situation in that country. We are committed to working with Congress to address concerns over granting PNTR, including opportunities to review China's human rights and religious freedoms record.

I can assure you that we will work with Congress on this issue and consider constructive ideas that can garner broad and bipartisan support.

My third point is the broader strategic case for supporting integration of China. PNTR advances our broader national interests by promoting a more responsible and constructive role for the Chinese state, both at home and abroad.

No one can know, of course, where China will be in 10 or 20 years. China will determine that. But what we can know is that they are more likely to be responsible reformists if they are integrated into the world economy.

WTO membership will not only open Chinese markets. It will provide China's people with unprecedented openings to the outside world. Through greater international integration, improved telecommunications, and wider Internet access, the Chinese people will be empowered as never before.

If the Internet has changed America, which is already an open society, imagine how much it can change China. The more open

China is, the more likely it is to play a constructive role in the world.

We have a vital stake strategically in China's continued economic progress and reform. Stagnation and disintegration would threaten their stability.

Last, permit me to answer some of the critics. First, some say, "Well, we have a 1979 agreement. Is that not enough?" But I was in the Carter White House during the negotiations of that 1979 agreement, and I can tell you, it falls far short of providing anything like the full benefits we will get in this agreement if China accedes.

The best we could do at that time in 1979 was a short three-page document, providing only limited rights and obligations. Relying on that agreement alone would deprive us of virtually all the commitments that China has made in this agreement.

Second, some opponents ask, "Are we not abandoning or turning our back on old friends in Taiwan by granting China PNTR?" The answer is no. This in no way affects our commitments to Taiwan or our ability to back them up. Indeed, Taiwan itself wants to see China in the WTO.

Taiwan is, itself, poised to join the WTO, and a combination of Taiwan and PRC accession would create strong opportunities for Taiwan to increase its economic ties with the PRC.

A third critique is that opponents say, "Will we not lose leverage over China on human rights by seeming to reward them despite their record?" Fundamentally, we will have a much more positive influence over China's behavior—and I think, Senator Thomas, this is precisely the point you were making—if we are actually actively engaged with China, rather than trying to isolate it. This is not a reward for China. We are advancing our own national interests and values.

Indeed, many human rights advocates have spoken out convincingly in favor of WTO accession, for example, Martin Lee, the leader of the Democratic Party of Hong Kong, and other leading dissidents on the Mainland.

Some opponents also ask, "Well, can we not get the same benefits by just granting China the annual extension?" The answer is no. GATT Article I requires that all WTO members grant each other any advantage, favor, privilege, or immunity provided to other countries immediately and unconditionally. This requires permanent NTR at the time China joins the WTO.

We cannot grant PNTR through an annual periodic renewal process and ensure that we will get the full benefits of China's accession commitments. Indeed, what we would be doing is, frankly, turning those benefits over to our Asian and European competitors.

Some opponents also ask, "How about China's compliance record? How do we know they will comply?" Well, the WTO agreement is different from our bilateral agreements in two important respects. The obligations that China has accepted are far more specific in detail, and it is enforceable through the WTO dispute resolution process.

Indeed, we found that in areas where we have bilateral agreements which are specific, like intellectual property protection, they are doing much better. China has implemented its bilateral agree-

ments most successfully when its obligations are concrete, specific, and open to monitoring, and that is precisely what the situation will be under the WTO.

China will be subject to the WTO's multilateral review and dispute resolution mechanisms. If they abide by panel decisions, and implement agreements, fine. If they do not, as the EU has not done, for example, with beef and bananas, we will retaliate, which we have the right to do under the WTO.

Some opponents also ask, "Why do we think this agreement will increase U.S. exports?" China currently has high barriers to our exports. The improved access we will gain will lead, we believe, to a $2 billion-a-year increase in our agricultural exports, according to USDA estimates. And a recent study by Goldman Sachs estimates that U.S. exports in general to China by 2005, with this agreement, will increase by at least two-thirds.

Some opponents also ask, "If the agreement is so one-sided, what does China get from it? How can it be in the interest of both China and the U.S. at the same time?" The answer is that China knows that it must ensure prosperity for 12 million new workers coming into their market every year, and they cannot do it by maintaining the status quo.

The WTO accession gives them an impetus to the kind of economic reform they need to support their reform, and that reform is in our interests as well.

Some opponents also ask, "Will not China's accession lead to more job losses in America?" It is absolutely the opposite. How can it, when there is no increased access for China's imports to the U.S. market, which is already open to them? We already have a $69 billion deficit. What we are getting is access to their market.

Indeed, the unprecedented protections against import surges and dumping will provide effective recourse in those cases where China's trade practices could threaten U.S. jobs.

For all of these reasons, we think that it is critically important that China be granted PNTR so that accession can occur at the earliest possible date.

Thank you very much.

[The prepared statement of Secretary Eizenstat follows:]

PREPARED STATEMENT OF HON. STUART E. EIZENSTAT

"THE CASE FOR PERMANENT NORMAL TRADE RELATIONS WITH CHINA"

Introduction

Chairman Hagel, Chairman Thomas, Ranking Member Sarbanes, Ranking Member Kerry, and Members of the Committee, I thank you for the opportunity to testify today on perhaps the most important international economic issue facing this Congress. As you know, the President has made it one of his highest priorities this year to work with Congress to grant China permanent Normal Trade Relations, commonly known as PNTR.

When the President submitted legislation to Congress for PNTR, he argued that the choice is clear—China's accession to the WTO is in the fundamental interest of American security and reform in China. The economic, political, and strategic implications of this decision give it historic dimensions.

This legislation enables the United States to grant PNTR to China once it has completed its accession, provided that it is on terms at least as good as those in our bilateral agreement concluded in November 1999. In fact, the terms can only get better, as we benefit from all further concessions China makes to other countries.

It is important to keep in mind that the agreement we concluded with China is a straight gain. Commercially, the agreement is one-sided in our favor, in that China opens its markets to an unprecedented degree while the United States simply maintains its current market access policies. There is no down-side, only an up side for American exporters, farmers, and workers.

It is also important to keep in mind what granting PNTR to China is not:

—It is not about whether China will enter the WTO, which can happen in any case.

—It is not about whether Chinese producers will have access to our market. Our market is already open to China, which enjoys the same access as nearly everyone else. Not granting PNTR will not revoke this access.

—It is not an endorsement of China's record on human rights or workers rights. We will still express our disagreements forcefully, including in the UN and other international fora, with or without PNTR.

—And it is not about China's policies toward Taiwan or other strategic issues that concern us. We will continue to protect our strategic interests, with or without PNTR, and nothing in the WTO hampers our ability to do this.

Passing PNTR merely ensures that we reap the full benefits of our bilateral agreement with China and its accession to the WTO. There are three crucial advantages to the United States in passing PNTR. Let me address each one in order.

I. THE COMMERCIAL BENEFITS TO THE UNITED STATES OF GRANTING PNTR

First, the economic case for China WTO accession is overwhelmingly compelling. The commercial benefits of granting PNTR are significant and all one-sided for the United States. We make no commercial concessions; China makes them all.

We would get *unprecedented new access to China's market* for exports of American goods and services, with benefits for American workers, farmers and companies. The scope of this new access is impressive, in tariff reductions on industrial and agricultural goods, reduction in barriers to American service providers, and especially in high-tech goods and services:

- Chinese *tariffs on industrial and agricultural goods* will fall by 50 percent or more in the space of five years. For example:
  - —Industrial tariffs on U.S. products will fall from an average of 25 percent in 1997 to 9.4 percent in 2005.
  - —In the automobile sector, tariffs will fall from 80-100 percent to 25 percent by mid-2006, with the largest cuts in the first years after WTO accession. Quotas on autos will be phased out. And American auto companies will be allowed to provide auto financing for the first time.
  - —Tariffs on the broad range of agricultural goods will fall by roughly one half, with larger cuts for U.S. priority goods. The role of state trading companies will be progressively reduced, allowing for more market-based trade. This improved access will eventually result in an increase of $2 billion a year in our agricultural exports to China, according to USDA estimates. In addition, China has committed to eliminate agricultural export subsidies, which displace American exports to third country markets, and to reduce domestic agricultural subsidies, which also distort trade.
  - —Chinese commitments go way beyond tariff cuts to include the elimination or sharp reduction in a wide range of non-tariff barriers. For example, American exporters will be able to import directly into China themselves, distribute within China, and offer after-sale service in ways they never could before. While it is hard to estimate the effect of lowering these barriers, many observers think that they are critical to competing effectively in China and are at least as important as the tariff cuts. With these rights, U.S. firms and farmers will be better able to sell American-made products directly to Chinese consumers.

- China would phase out a wide range of restrictions in a broad range of services. For example:
  - —China has agreed to liberalize wholesale and retail distribution services throughout China in three years.
  - —In banking, China has accepted full market access for branches and subsidiaries of foreign institutions, to be phased in progressively over five years.
  - —In insurance, the Chinese market will also be progressively opened over five years, with the elimination of limits on the number of licenses for foreign firms and geographic scope of operations for foreign firms. In non-life insur-

ance, wholly foreign owned subsidiaries will be allowed two years after accession.

- Some of the biggest Chinese reduction in barriers come in the *high-tech sectors.* For example:
  - —China will participate fully in the Information Technology Agreement (ITA), eliminating all tariffs by 2005 on computers, semi-conductors and other high-tech products—markets in which the U.S. is highly competitive.
  - —In telecommunications, China has agreed for the first time to allow direct foreign investment. It will also participate in the Basic Telecommunications Agreement, accepting pro-competition principles such as an independent regulatory authority and interconnection rights.
  - —The Chinese market for a wide range of computer, internet and software services will be opened to American companies, either through Joint Ventures or direct service.

  The opening of these sectors comes at the same time as the powerful revolution in information and communications technology is just beginning in China. There is an enormous potential for both increased American exports and the freer flow of information. American high technology exports to China grew 500 percent between 1990 and 1998.

  China's telecommunications market is the world's fastest growing. By the end of this year, some analysts predict that China will become the world's second largest market in both telecommunications and personal computers. And last year, the number of Chinese Internet users quadrupled, from 2 million to 9 million. This year, it should more than double, to 20 million. No amount of censorship or monitoring can completely control this explosion of information. The President has compared it to trying to nail Jello to a wall.

In addition to this new access to China's markets, we will benefit from unprecedented provisions to protect American workers and farmers from import surges, unfair pricing, and abusive investment practices such as offsets or forced technology transfer. No agreement on WTO accession has ever contained stronger measures:

- A "product-specific" safeguard that allows us to take measures focused directly on China in case of an import surge that threatens a particular industry. This protection, which remains in effect for 12 years after accession, provides stronger and more targeted relief than our current Section 201 law.
- Strong anti-dumping protections. The agreement includes a provision recognizing that the U.S. may employ special methods, designed for non-market economies, to counteract dumping by Chinese exporters for 15 years after its accession.
- Requiring China to eliminate barriers to U.S. companies that cost American jobs. For the first time, Americans will have the means, accepted under the WTO rules, to combat such measures as forced technology transfer, mandated offsets, local content requirements and other practices intended to drain jobs and technology away from the U.S. Moreover, Chinese commitments to open up trading and distribution rights will allow American companies to export to China products made at home by American workers, rather than seeing companies forced to set up factories in China or go through Chinese government approved middlemen in order to sell products there.

We are already preparing for the most intensive *enforcement and compliance effort* ever mounted for a single trade agreement. The President has requested an additional $22 million for new enforcement and compliance efforts, which will focus in large part on China. The Administration's aggressive monitoring and enforcement efforts will include the private sector, other WTO partners, and Congress. For the first time, China's compliance will be subject to multilateral enforcement under the WTO dispute settlement mechanism—which will force China to comply with WTO rulings or be subject to trade sanctions. We want to work closely with Congress on this important issue.

The bottom line of this agreement is more U.S. exports to China, leading to more, high-paying jobs for American workers. All we have to do is vote PNTR, so we can get the full benefits of the agreement, just as our competitors will.

II. AMERICA'S STAKE IN PROMOTING SUCCESSFUL MARKET REFORM IN CHINA

Second, WTO accession provides a powerful impetus for China's economic reforms at a critical juncture. It strengthens the hand of economic reformers in China and helps lock in their reform path. For economic, strategic, and humanitarian reasons,

we have an enormous stake in the successful continuation of China's economic reforms.

China has come a long way since the beginnings of market reforms two decades ago. Yet China has already reaped the easy gains of its reforms to date and now faces the complex challenges of reforming its bloated state-owned enterprise sector and restructuring its troubled banks. Economic growth is slowing, but the labor force is increasing even faster.

But, as the President has said, the Chinese authorities face a dilemma: they realize that closer integration with the global economy risks unleashing forces that they cannot control. Opening China more fully to the revolution in communications and technology will provide ordinary Chinese with unprecedented freedom and access to information. But if China tries to shut its people off from international competition, integration, and information, it will not be able to attract the investment and know-how to build a modern economy and deliver rising living standards and stability for its 1.3 billion people.

Reformers at the highest levels of the Chinese government appear to be embracing the WTO's impetus for change through initiatives to prepare for the new competition. The central bank is preparing for opening the banking sector. And the government is opening parts of the economy previously considered strategically important to international and private investors, with individuals already dominating the Chinese Internet industry and also being allowed to take ownership stakes in domestic banks for the first time.

With WTO accession, China is locking into place a more rapid process of market opening and reform of its economy, and submitting itself to a global rules-based system. In my meetings with U.S. business representatives in Shanghai and Beijing, they told me the most important thing the U.S. government could do to help them was to promote the rule of law in China. WTO accession is the most powerful way of advancing this objective.

We have an enormous national stake in supporting China's decision for WTO accession and greater integration:

- It helps support faster growth in pioductivity and wages in China, leads to higher living standards for Chinese workers, and promotes higher demand for our products.
- It serves as a catalyst for broader changes that will help to promote core American interests and values. To thrive as a WTO member, China will need to become more market-based; more respectful of personal and commercial freedoms; and more open to the free flow of information and ideas.
- China's accession to the WTO will serve to promote the causes of human rights, workers' rights, and religious freedom, laying the groundwork for progress in the future. WTO membership will further the development of the rule of law and the opening of China, which will advance our core values.

This will not happen overnight, however. In the meantime, the United States will remain continuously vigilant on human rights abuses in China, and we will continue to express our disapproval forcefully whenever rights are abused in China. The Administration already monitors the situation continuously and issues an annual report. We also will make continuing use of the UN and other international fora, working with countries that share our core values. But let's keep in mind that we have much more positive influence over China's behavior if we are actively engaged with China, rather than trying to isolate it.

Of course, we understand that Congress is concerned about these issues. Some Members of Congress have considered the annual review of China's NTR status a useful opportunity to review the human rights situation in that country, even though the connection is arguably tenuous. The Administration is committed to working with Congress to address concerns over granting PNTR, including opportunities to review China's rights record. I can assure you that we will work with Congress on this issue, considering constructive ideas that could garner broad, bipartisan support.

III. THE BROADER NATIONAL STRATEGIC CASE FOR SUPPORTING GREATER INTEGRATION OF CHINA

Third, and finally, PNTR advances our broader national interests by promoting a more responsible and constructive role for the Chinese state, both at home and abroad.

We cannot know where China will be in 20 years, or even 10 years, what its economy will be like, how it will treat its people, what its role in Asia and the world will be like. China will determine that. But we do know that they are more likely

to be a responsible, reformist power if they are more integrated into the world economy.

A policy of welcoming China into the community of nations—rather than being a voice that keeps China out, even when it offers to live by the rules—is a policy that supports our deepest national security interests.

WTO membership will not only open Chinese markets, but will also provide China's people with an unprecedented opening to the outside world. For example, accelerating the information revolution, through greater international integration, improved telecommunications and wider internet access, can only help empower the Chinese people. As the President has pointed out, if the Internet has changed America, which is already an open society, imagine how much it could change China. The more open China is, the more likely it will play a positive role in the world.

By learning to play by the rules, both internationally and domestically, China will strengthen the rule of law, which will enable it to become a more reliable partner and a fairer society. It can even lay the groundwork for protection of core values in China, such as human rights, religious freedom, and workers rights.

We also have a vital strategic stake in China's continued economic progress and reform. Stagnation and disintegration would threaten China's stability. If we have learned anything in the last few years, from events in Russia and elsewhere, it is that the weaknesses of great nations can pose as big a challenge to the United States as their strengths.

We must not seek to cut China off from the economic and broader forces that are most likely to change it in the right direction. As the President has said, simply bringing China into the WTO does not guarantee that its government will take a responsible, constructive course. But it will lead the authorities to confront that choice sooner, and it will make stronger and more visible the imperative to make the right choice.

And that, along with the compelling commercial benefits and the need to support economic reform, is the imperative for us to make the right choice on PNTR and fully welcome China into the WTO.

IV. ANSWERING THE CRITICS

Opponents of PNTR and China's accession to the WTO have raised some important questions, which I would like to take the opportunity to address:

Some opponents ask—Why do we need PNTR? Isn't the 1979 agreement enough?

- I was in the Carter White House during the negotiation of the 1979 Agreement, and I can tell you that it falls far short of providing us with the full benefits of China joining the WTO, based on our November 1999 agreement with them. Although it was the best we could do at the time, the 1979 Agreement is a short, three-page document that provides for only limited rights and obligations, largely with respect to the treatment of goods for import.
- Reliance on the 1979 Agreement would deprive the United States of: virtually all market access provisions negotiated in November for services; meaningful market access for goods; key elements necessary to safeguard American workers from import surges ana unfair trade from China; and special rules and vital enforcement rights like access to WTO dispute settlement.

Some opponents ask—Are we not abandoning or turning our back on old friends in Taiwan by granting China PNTR and letting it into the WTO?

- China PNTR and WTO accession in no way affects our commitments to Taiwan or our ability to back them up. In fact, Taiwan itself wants to see China in the WTO.
- Taiwan is also poised to join the WTO. A combination of Taiwan and PRC accessions to the WTO will create opportunities for Taiwan to increase its economic ties with the PRC, build trust and confidence through expanded trade and investment, and lower barriers to freer flow of ideas between the two sides of the Strait.

Some opponents ask—Don't we lose leverage over the Chinese on human rights by granting PNTR and appearing to reward them despite their human rights record?

- Fundamentally, we have much more positive influence over China's behavior if we are actively engaged with China, rather than trying to isolate it. This is true in a number of ways, including strengthening of the rule of law, providing freer access to information, and creating more economic freedom. We are not granting PNTR to reward China, but because it advances our national interests and values.

- Many human rights advocates have spoken out convincingly in favor, of WTO accession. For example, Martin Lee, the leader of the Democracy Party of Hong Kong, has said, "The participation of China in the WTO would not only have economic and political benefits, but would also serve to bolster those who understand that the country must embrace the rule of law." A Chinese dissident, Ren Wanding, a leader of the 1978 Democracy Wall Movement, sees it as "a new beginning."

Some opponents ask—Can't we just continue to grant China NTR status annually?

- The answer is no. GATT Article I requires that all WTO members grant each other "any advantage, favor, privilege or immunity" provided to other countries "immediately and unconditionally." This requires permanent NTR at the time China joins the WTO. We cannot grant NTR through an annual or periodic renewal process and ensure that we get the full benefits of China's accession commitments. Our Asian, European and other competitors would reap the benefits, however.
- Even if this were a WTO-consistent option, which it is not, one must consider the uncertainty for American farmers, businesses, and workers that would have committed resources to, developing customers in China. The possibility that within a certain period, the access on which they based their business plans would be withdrawn could frustrate any meaningful opportunities.

Some opponents ask—China has never followed through on past commitments—why would they do anything different now? Are there concrete examples of successful compliance and enforcement with past agreements?

- The WTO agreement is different from our bilateral agreements in two important respects—the obligations that China has accepted are far more specific and detailed, and it is enforceable through the WTO dispute settlement process. The Administration will aggressively monitor and enforce this agreement, using WTO dispute settlement and the WTO's monitoring mechanism.
- We will commit the necessary resources to ensure Chinese compliance, and we are seeking new resources for the FY 2001 budget. Under President Clinton's proposal, the United States would dramatically increase the resources of agencies that monitor and ensure our trading partners' compliance with trade agreements.
- China's record of compliance is admittedly somewhat mixed. But vigorous enforcement of our bilateral agreements with China has resulted in significant improvements in intellectual property (IP) protection. Before our IP agreements in 1992 and 1995 and the enforcement action in 1996, China was one of the world's largest IP pirates. Today, China has improved its legal framework—and it has substantially eliminated the illegal production and export of pirated music and video CDs and CD-ROMs.
- Generally, China has implemented its agreements most satisfactorily when its obligations were *concrete, specific, and open to monitoring.* Previous bilateral agreements have not adequately dealt with the range of barriers and trade-restrictive practices our exporters face in China. The November 1999 bilateral agreement has far more specificity in terms of well-defined commitments than we were able to achjeve in earlier agreements.
- China's commitments are subject to the WTO's multilateral review and *dispute settlement mechanism.* The U.S. monitoring and enforcement efforts will be complemented and enhanced by the 134 other WTO Members with a common interest in seeing China's market opened.

Some opponents ask—Why do we think this agreement will increase U.S. exports? Why should China be any different from Japan, which is in the WTO and where we still have difficulty distributing our goods and providing services?

- China currently has high barriers to U.S. export. In our November agreement, China made broad commitments to eliminate both tariff and non-tariff barriers to American exports. On U.S. priority agricultural products, for example, tariffs will drop from an average of 31 percent to 14 percent by 2005. This improved access will eventually result in an increase of $2 billion a year in our agricultural exports to China, according to USDA estimates. Industrial tariffs on U.S. products will fall from an average of 24.6 percent in 1997 to an average of 9.4 percent by 2005. A study by Goldman Sachs estimated that U.S. exports to China could increase by at least two-thirds by 2005.
- But China's commitments extend well beyond tariff reductions. For effective access, American companies, farmers and workers need the ability to export, im-

port and distribute goods and services in China—these rights are currently denied, but they will be permitted under the agreement. It was in part because of our experience with Japan that we sought to ensure strong commitments on these trading and distribution rights.

Some opponents ask—If the agreement is so one-sided, what does China get from it? How can it be in the interests of China and the U.S. at the same time?

- In the last 20 years, China has made remarkable progress, but it faces daunting problems as well. China's economic growth has slowed just when it needs to create more jobs and maintain support for economic reform. For all the progress of China's reforms, private enterprise still accounts for less than one-third of its GDP. In other words, China cannot maintain stability or ensure prosperity by maintaining the status quo. The U.S. shares a common interest with those in China's leadership who support reform. Continuing stability and economic growth in China supports America's security and economic interests.

Some opponents ask—Won't China WTO accession just lead to more job losses in America?

- China's accession to the WTO will lead to increases in U.S. exports, creating more high-paying jobs. But there will be no increased access for Chinese imports to the U.S. market, which might raise concerns over job losses. In fact, the unprecedented protections against import surges and dumping will provide effective recourse in those cases where Chinese trade practices might threaten job losses.
- China's commitments will also make it easier for our businesses to make their products with U.S. workers in America and sell their products themselves in China. New investment rules will prevent Chinese practices designed to force foreign companies to move production to China, like forced technology transfer or requirements for local content.

Thank you for the opportunity to present the compelling case for China's accession to the World Trade Organization and granting it Permanent Normal Trade Relations status. I look forward to working with this Committee and the Senate on this issue, and I would be happy to answer any questions that you may have.

Senator HAGEL. Mr. Secretary, thank you.

What Chairman Thomas and I will do is each take 7 minutes. I think that will get us close to a time when we will be serious about getting over to vote, if that is all right with you, Mr. Secretary.

I would like to go back to a couple of points that you made. On the issue of permanent normal trade relations, which, as we all know, and we have talked about, the Congress will deal with in the next few weeks' votes, there has been some talk, speculation, that there may well be some conditions offered to permanent normal trade relations, maybe environmental, maybe labor, maybe other. Could you give us the administration's position on PNTR with conditions?

Secretary EIZENSTAT. Yes. It is critically important to us and, indeed, it is the obligation that we would have under WTO and GATT requirements, that China's accession be unconditional. That is, not conditioned on annual reviews, not conditioned on any specific substantive area.

Now, we know that there are a number of interests in the Congress on both sides of the aisle in religious freedom and human rights. We are entering into discussions with Members on both sides of the aisle on how to maintain continuing oversight on China's religious freedom and human rights records, but without making that a condition of PNTR.

So these dialogs are continuing, but it is critically important—and I want to make it absolutely clear—that we cannot condition PNTR.

Senator HAGEL. Thank you. On a more specific area, as we know, the Chinese Government has not allowed its citizens free access to information generally, Internet, cable television, air waves.

With the accession of China to the WTO, and if we are able to pass permanent normal trading relations with China, do you think this would improve the situation, where the citizens of China would have access, would be freed up, would be given a new sense to participate in viewing other points of view through the media, through the Internet?

Secretary EIZENSTAT. There is no question that that would be the case. There is no amount of censorship, however powerful it may be, that can completely control the explosion in information which will be available if PNTR is granted and China accedes.

The amount of access to information over the Internet, the degree to which China will open itself up to foreign investment in telecommunications, is quite astounding. We will, therefore, be able, for example, to have 50 percent foreign equity share participation in electronic mail, voice mail, Internet, on-line information, data base retrieval, 49 percent foreign equity shares for mobile voice and data services.

Geographic restrictions will be eliminated. They will adopt norms for telecommunications regulation, which assure non-discriminatory interconnection rights. So there is no question, even though they may try to do so, that censorship would be like, as President Clinton said, trying to tack Jell-O onto a wall.

If I may also just give a personal anecdote: When I was in China and talking with some of our American business representatives there, IBM, and others, I asked them in terms of employing Chinese workers, "Do they have access to the same kind of E-mail and Internet service that you have to have for American employees in connection with IBM and other factories around the world," and they said, "Of course. It is the only way that that can happen."

So the dialog between Chinese engineers, Chinese scientists, and American engineers and scientists across the Pacific will exponentially increase.

One last point: I mentioned the explosive growth in personal computers and the Internet. We expect literally by the end of this year that China could be the second largest market for personal computers, and the growth in the Internet is staggering. Last year, it quadrupled. This year, we expect it to at least double. That kind of geometric increase is going to increase the ability of the Chinese to access information and to empower the Chinese people.

Senator HAGEL. Do you believe this would also apply to radio and television broadcasts, allowing access to more information?

Secretary EIZENSTAT. Yes. Absolutely.

Senator HAGEL. We have heard a rather joyous and positive outlook this morning so far on PNTR, WTO accession for the Chinese, from Senator Thomas, from me, from you. Tell us where the problems are.

Secretary EIZENSTAT. Well, I tried to lay out seven or eight critiques that people have made, to rebut each one of them.

There are some who say, for example, that somehow this is going to give an endorsement to China's human rights record. Nothing could be further from the case. We will continue to speak loudly

and forcefully about their human rights violations, but this will give us an extra hook, by more engagement, to begin to change their conduct, to open China to new ideas. So that is one issue.

The second, some suggest somehow this will hurt Taiwan. Again, quite the contrary. Taiwan itself wants to see both itself and China in. So that is a second rebuttal.

I have tried, again, to suggest in all of these areas that we think the critiques are not well founded. The last, most basic critique is that somehow this is going to negatively affect U.S. jobs. This cannot happen. It cannot happen, because we are already running a $70 billion trade deficit with China.

There is nothing in this agreement which in any way gives China any additional market access to the United States that they do not already enjoy. It is not a NAFTA agreement. China gets nothing from this agreement more than they already have.

On the other hand, we get the opportunity to access a market that has been largely closed. We have only about $14 billion in exports to China. They have $82 billion in exports to us. Again, it is estimated by Goldman Sachs that our exports could nearly double in 5 years.

The distribution rights also help American workers, because no longer will U.S. companies have to, as a condition of doing business there, move a plant there, engage a middle man, transfer technology, deal with offsets. They will be able to manufacture in the United States using U.S. jobs, and export to China.

Senator HAGEL. Thank you.

Senator Thomas.

Senator THOMAS. Thank you.

Mr. Secretary, I think—of course, we have heard a lot about it, but today in the paper it talked about the transfer of some information that has to do with defense, Lockheed, in this instance.

As we expand the use of technology and exporting it, what are we going to do to protect ourselves with respect to the military use of this kind of information?

Secretary EIZENSTAT. We have very strict rules under the Arms Export Control Act to make sure that we do nothing that gives China any additional advantage in the missile or high-tech area with respect to its military.

The fact that we have already cited companies like Loral, and that just yesterday the State Department charged Lockheed with violating the Arms Export Control Act, shows that we have our thumb on this issue, that we are constantly looking to make sure that we do not relax our export controls in ways that would give China a military advantage.

Senator THOMAS. Well, apparently, your thumb was not on it entirely, if that has already happened.

Secretary EIZENSTAT. Well, we often cannot prevent things in advance. What we can do is immediately try to respond——

Senator THOMAS. Mr. Secretary——

Secretary EIZENSTAT [continuing]. To them, but certainly——

Senator THOMAS [continuing]. If you cannot do it in advance, then it is already gone.

Secretary EIZENSTAT. We have very strict licensing requirements through the Commerce Department and through an interagency

procedure, and if a company violates those licensing requirements, we certainly step down hard. But we do have preventive licensing.

You cannot export anything that would help their missiles or space launch, and their military, without getting specific licenses, and that license is granted only after an interagency review.

Senator THOMAS. My understanding is——

Secretary EIZENSTAT. It includes defense——

Senator THOMAS [continuing]. That that is going on right now in the Senate, is that the Defense Department does not have a role in that, nor the intelligence agencies, and so on, that it is——

Secretary EIZENSTAT. Well, there is a role. There is a question——

Senator THOMAS. May I finish, please?

Secretary EIZENSTAT. I am sorry. Yes, please.

Senator THOMAS. And that that is the controversy that goes on. And do you expect to change that?

Secretary EIZENSTAT. Well, we always are looking for ways, Senator, to try to improve our licensing procedures. There is a new agency process in which Defense does have a role. Commerce does grant the licenses, but there is an interagency review, and we will continue to make sure we try to strengthen that process.

Senator THOMAS. I think that is one of the things that will probably be more open. In terms of investment, you talked about more investment. Will there be some requirements for joint ownership, or a certain percentage of domestic ownership with respect to investments by U.S. companies?

Secretary EIZENSTAT. In the telecommunications sector, Senator, there are requirements for 50 percent foreign equity ownership, and no more, in certain value-added telecommunications services. But in other areas, like banking, insurance, there are no such requirements.

Now, basically, in telecommunications there is a prohibition of any foreign investment. So going up to 50 percent is a major, major improvement.

But in most areas—and this is, I think, one of the great advantages of this agreement—you do not have to joint venture with a Chinese company; you do not have to use a Chinese middleman, or a state-owned enterprise to distribute your products, as you do now. And this will give U.S. companies the ability to manufacture here and export there, which is now not permitted.

Senator THOMAS. I see.

Secretary EIZENSTAT. Also, there currently are very strict technology transfer and offset requirements for any business in China. These will be eliminated as well.

Senator THOMAS. One of the difficulties we have had over time in Japan was the enforcement, and you mentioned that, about more money there, but we have had agreements, and we have had hearings, and the enforcers said, "Well, we just were not able to."

The evidence was that many of those agreements had not been enforced. Do you foresee that being a problem with these kinds of agreements that are made here?

Secretary EIZENSTAT. You are correct that China does have a mixed record in terms of implementing bilateral agreements, but if I may respond in two ways. First, we have found that the more

specific the obligation, the more likely they are to abide by it. This agreement is extremely specific.

Second, we do not simply have to rely on a bilateral assurance here. We will have 134 countries who will have an interest in China is abiding by its agreements. We can bring, and we will bring—as we do against the European Union and others, if there is a violation of their obligation—we will bring a case to the WTO panel.

The WTO panel has binding control over that case, and can force China to comply. If China does not, we have the right, under the WTO, to exact 100-percent tariffs, up to the level of the damage that may be caused by non-compliance.

Senator THOMAS. Japan is a member of the WTO, are they not?

Secretary EIZENSTAT. Sir?

Senator THOMAS. Japan is a member of the WTO.

Secretary EIZENSTAT. Yes.

Senator THOMAS. Have we brought any actions on their enforcement?

Secretary EIZENSTAT. We have brought actions against the EU. I am not sure how many cases we have brought against Japan. I think there have been some.

Senator THOMAS. Maybe. You mentioned, I think, that some of these things would take place immediately. My understanding is, for instance, on anti-dumping, it takes 15 years to implement that.

Secretary EIZENSTAT. No, sir; it is actually the opposite. We will have, uniquely for China, the right to enforce our anti-dumping laws for 15 years by treating them as a non-market economy. So it actually gives us a stronger hand for import surges or for unfair pricing, and they can be treated as a——

Senator THOMAS. The provision remains for 15 years.

Secretary EIZENSTAT. That is correct.

Senator THOMAS. It does not take 15 years to——

Secretary EIZENSTAT. That is correct. We can treat them—and this was one of the most contentious issues, Senator. They wanted to be treated as a market economy. Treating them as a non-market economy gives us a much greater control in terms of very tough anti-dumping procedures, and they, in the end, allowed us to do that for 15 years.

You mentioned again the Japan case. The biggest case we brought against Japan in WTO was the Kodak case.

Senator THOMAS. I see.

Thank you.

Senator HAGEL. Senator Thomas, thank you.

Mr. Secretary, we are going to dash off and vote. We have two votes back to back. We are running the clock down here, so we could get as much time with you. I do not know what your schedule is, but if it would be possible for you to stay, I have a couple more questions, and the committee would appreciate it very much, if that is possible.

Secretary EIZENSTAT. I would be happy to.

Senator HAGEL. Thank you.

The committee will then stand in recess until we vote.

[Recess: 10:43 a.m.—11:15 a.m.]

Senator HAGEL. Ladies and gentlemen, thank you for your indulgence in allowing democracy's wheels to keep moving forward. We are grateful. Senator Thomas is now at another meeting, and is going to try to get back.

But so as not to hold our distinguished Deputy Secretary any longer, let me ask Secretary Eizenstat: In the context of your testimony this morning and the issues we are talking about today—and you are particularly well-positioned to analyze this for us—Taiwan, China, the geopolitical and economic relationship across the Strait, WTO accession for each, and our relationship, would you broaden this out for us, and give us some sense of how you think the consequences may play out if we go forward and move favorably on PNTR?

Secretary EIZENSTAT. Yes, sir. First, on the security side, we are carrying out our responsibility under the Taiwan Relations Act to provide defensive military equipment to Taiwan. That responsibility is unchanged and will remain unchanged.

We have an interest in a peaceful resolution of the differences between China and Taiwan. That remains our position, and it will be our position. WTO accession does not affect that.

Second, we believe that Taiwan wants to see China in the WTO. Taiwan is, itself, poised to join the WTO, and a combination of Taiwan and PRC accession would create opportunities for Taiwan to increase its economic influence in the PRC, to build trust and confidence through expanded trade and investment, and to lower barriers to freer flow of ideas between the two sides of the Strait.

In terms of the process, we have completed our negotiations with Taiwan for accession, and essentially other countries have also resolved their bilateral differences. So Taiwan is poised to join.

We anticipate that when the working parties on Taiwan and China accession reach a consensus on their respective accession packages, the WTO General Council would then approve both packages and invite both to become WTO members at the same meeting of the General Council. So neither could block the other's accession under that provision, and we would anticipate both coming in at the same time.

Senator HAGEL. Thank you. Let me ask a question that you referenced in your testimony regarding the balance of payment that we have currently with China. Would you range out for us and give us some assessment of what you believe the expectations should be, realistically, moving that balance of payment deficit down over the next few years, if China, in fact, accedes to the WTO, and we pass permanent normal trading relations with China?

Secretary EIZENSTAT. Yes, sir. Of course, balance of payments with any country bilaterally depends on a whole host of issues. One of the reasons that we have a large trading balance is that we have a particular appetite for the consumer goods sector in which China is very strong, areas like toys.

It is important to recognize, however, that if China were not exporting those products we would be getting them from other places in Asia, and actually our level of exports from China and Asia in those areas has remained constant for a good while.

Second, what one can say with complete confidence is that on the export side of that trade deficit there is simply no question that

there should be a very significant increase under the agreement. The reason is that the USDA, the Department of Agriculture, estimates that we will have $2 billion in additional agricultural exports annually by 2005, because of the marked increase in U.S. agricultural exports to China, particularly in areas that are important to us, like pork and grains.

In addition, it has been estimated by Goldman Sachs, in a study that the Congressional Research Service has noticed, that by 2005, they anticipate that the $13 billion to $14 billion in U.S. exports to China could grow to on the order of $27 billion to $28 billion. Merrill Lynch and others have also done studies indicating a substantial increase in trade.

So I think what we can say with some real confidence is that our exports to China will increase very substantially, and that China gets no greater rights to access our market than they already have.

Senator HAGEL. Mr. Secretary, again, we are grateful, especially that you would take a little extra time with us. It is always good to have you up here.

Secretary EIZENSTAT. Thank you.

Senator HAGEL. So thank you very much for what you are doing for our country as well.

Secretary EIZENSTAT. Thank you.

Senator HAGEL. Thank you.

If we could have the second panel, Secretary Carlucci and Mr. Younts. Gentlemen, welcome.

Mr. Secretary, it is good to see you again. We are grateful to both of you for sharing some of your thoughts with us this morning.

Secretary Carlucci, we will begin with you.

STATEMENT OF HON. FRANK CARLUCCI, CHAIRMAN OF THE BOARD OF DIRECTORS, NORTEL NETWORKS, WASHINGTON, DC

Mr. CARLUCCI. Thank you, Mr. Chairman. I would like to submit my entire testimony for the record.

Senator HAGEL. It will be submitted.

Mr. CARLUCCI. I will summarize it. I am here, as you indicated earlier, in my capacity as chairman of the board of Nortel Networks, the world's largest supplier of digital network solutions, and a broad diversified developer of high-capacity switching and optics technology. We employ approximately 60,000 people, 35,000 of whom are in the United States.

While our operations in China were officially launched in 1993, our first sale dates back to 1972. We employ approximately 2,000 people in China. Our long history there has given us a strong understanding of the obstacles foreign companies face in succeeding in China's marketplace.

Nortel's experience and my own dealings with China led me to conclude that the United States should support PNTR and membership in the WTO for China. I firmly believe that bringing China into the global world-based system would bring positive economic change, protect our Nation's security interests, and lead to social reforms that benefit Chinese citizens.

You have already heard the specific arguments about the critical need to grant China PNTR, and I am not going to repeat them;

however, I would underscore a point that Stu made, that the agreement requires no concessions from the U.S.

China must make deep and fundamental reforms that reach the core of every aspect of its economy. The question arises of: Why did China do this? During my recent visit there, they emphasized to me time and again, including the President, that they intend to enter into the new economy. They know that there is a price that must be paid to do this, and they are willing to accept that price.

Nortel Networks and the U.S. high-tech industry stand to gain tremendously from China's accession into the WTO. As has been mentioned, it is the world's fastest growing telecomm market. Internet subscribers have more than quadrupled, and are expected to reach an astounding 20 million by the end of this year.

At present, China's state-owned enterprises hold the majority of high-tech business in China. The Congress now holds the key to unlocking that market and opening it up to American business. Permanent normal trade relations with China will allow U.S. high-tech business unprecedented access to Chinese markets.

By 2005, our products will no longer be subject to tariffs averaging 13 percent. Immediately upon accession, China will remove burdensome import quotas. China will no longer impose technology transfer requirements, and we will, as a result, have greater protection for our proprietary products.

Those changes will allow the high-tech industry to export products directly to the U.S., rather than being forced to set up manufacturing facilities in China, and use a Chinese middleman, as we have to do now. This means increased jobs in the U.S.

In one of the breakthroughs—you mentioned this as well—China has agreed to sign onto the WTO basic telecommunications agreement. With this signature, the U.S. high-tech industry will finally gain access to the Chinese public telecomm network that will be regulated by an independent regulatory authority.

I might say, I had a discussion with the ministry that is going to handle the regulation, and they are wrestling right now with how they will handle that regulatory responsibility. Increased competition in the telecomm industry means increased business for us.

WTO membership will be a powerful positive and legally mandated force for dramatic social change in China. Since the U.S. engaged with China over 20 years ago, U.S. companies have improved wages and working conditions in China by providing high-paying jobs and promoting entrepreneurship in a manner state-owned enterprises never viewed as necessary.

In November, Chinese negotiators agreed for the first time to allow American companies to play a central role in building Chinese information infrastructure. By making this concession, China is committed to an open Internet environment that allows its citizens more communication with each other and increased access to the world beyond China's borders.

This moves China closer to a concept I have tried to promote throughout my career: Communication is the best mechanism for generating change in a country that has a history of repressing free speech.

Three years ago, ten former secretaries of defense, including myself, sent this letter to President Clinton reaffirming our view that

renewing most-favored nation trading status for China will promote the U.S. national security interests. In that letter, we recognized that the most promising way to reach the goal of a stable China is for the U.S. to continue to build a relationship of mutual engagement with China. That statement is truer today than ever before.

If we deny PNTR, China will interpret it as the adoption of a policy of confrontation, and will exercise its legal right under the WTO to bar U.S. companies from reaping the benefits of its WTO accession. In turn, U.S. companies would be unable to compete against foreign competitors and enjoy the benefits of China's WTO accession.

Denying PNTR for China will only irreversibly damage our oftentimes fragile relationship with our fourth largest trading partner. The policy of engagement with China is our best line of defense against this grave consequence.

Stu spoke about supporting Taiwan for China's entry into the WTO. I spent 4 days in Taiwan last week in my capacity as chairman of the U.S.-ROC Business Council. I met with the President-elect, with the current leadership, and with the business leadership.

The support for China's entry into the WTO is widespread. It stems from the fact that Taiwan is—it will depend on how you look at it—either the first or second largest investor in mainland China. According to the mainland Chinese, Taiwan has some $22 billion in paid-in investment in mainland China, and the total investment that is on the books is some $44 billion.

They understand—the Taiwanese understand that it is better to have the PRC play by the rules of the game, and that it is in their interest to have the PRC open up their society that will help promote a cross-Strait dialog.

As Stu indicated, it will also facilitate the entry of Taiwan into the WTO, and Taiwan has already met all the requirements. Conversely, if there is a confrontation with China on this issue, it will simply complicate relations between China and Taiwan.

The bottom line is that granting PNTR to China will guarantee U.S. companies access to China on our terms. Denying PNTR will place the terms of our access in China's hands. Congress must now decide which alternative is best. From an economic and business perspective, it is an open-and-shut case. We hope you make the right decision.

Thank you for inviting me to appear. I would be happy to answer any questions you might have, Mr. Chairman.

Senator HAGEL. Secretary Carlucci, thank you.

[The prepared statement of Mr. Carlucci follows:]

PREPARED STATEMENT OF HON. FRANK CARLUCCI

Mr. Chairman, and distinguished Members of the Committee. Thank you for inviting me here today to present the high-tech industry perspective. I am here today in my capacity as Chairman of the Board of Nortel Networks. I am also Chairman of the Board of the Carlyle Group. From 1987 to 1989, I was the Secretary of Defense and previously served as President Reagan's National Security Advisor in 1987 and was intimately involved with the shaping of the U.S.' unique and often complicated relations with foreign nations, including China.

You invited me to speak today about granting permanent normal trade relations to China—the most contentious trade debate to hit Congress in the last two decades.

Nortel Networks is one of the worlds largest suppliers of digital network solutions. It is the most broadly diversified developer of high capacity switching and optics technology. We are at the heart of the Internet. Over 75 percent of all Internet traffic in North America and more than half in Europe travels over Nortel Networks' backbone. We have a presence in over 150 countries where we work with customers to build and deliver communications and IP (Internet Protocol)—optimized products and networks or what we call "Unified Networks." No other company in the world can deliver global applications and services that merge new and existing networking elements and technologies into a seamless open network. We have over 35,000 employees in the U.S. out of 75,000 globally.

NORTEL NETWORKS: A LONG HISTORY IN CHINA

In China, we employ approximately 2,000 citizens and pay some of the highest wages in China. While Nortel Networks China was officially launched in 1993, our first sale there dates back to 1972. Our business operations include R&D, manufacturing, sales and service in the People's Republic of China, Hong Kong and Taiwan. We participate in four joint ventures in China and partner with the Beijing University of Posts and Telecommunications in the operation of one of Nortel Networks' global R&D centers.

This long history of doing business in China has given us a strong understanding of the obstacles foreign companies must navigate to succeed in China's marketplace. Our most recent win—providing China's second largest telecommunications carrier with product solutions that will bring a new, high-performance Internet to thousands of users—is one of many we have had over the years. So it has been worth the effort.

We witnessed the slow but meaningful reforms that have taken place in China over the past twenty years. These Nortel Networks experiences and my own dealings with China have led me to conclude that the United States must support PNTR and membership in the WTO for China. I firmly believe that bringing China into the global rules-based system will bring positive economic change, protect our national security interests and lead to social reforms that benefit Chinese citizens.

WITHOUT PNTR, THE U.S. ECONOMY LOSES

Current Chinese law requires the intimate involvement of a Chinese middleman in every import or export activity conducted by American and other foreign companies. This severely limits our ability to engage with and export to China, particularly now when high-tech companies must act at webspeed. As negotiated in the U.S.-China WTO accession agreement, China will phase out the mandatory middleman practice over a three-year period beginning upon its accession.

While I am certain you have already heard the arguments from industry about the critical need to grant China PNTR, I believe a few warrant repeating because they illustrate how profoundly WTO accession will impact American industry's ability to do business in China:

- While the agreement does not require concessions from the U.S., China must make deep and fundamental reforms that reach the core of every aspect of its economy. I learned on my trip to China last week that they understand this and accept it. They are most anxious to enter the new economy and will pay the price.
- Unilateral concessions will eliminate barriers prohibiting the free export of U.S. goods and services in virtually every industry sector.
- The U.S. will gain unprecedented access to a market of more than one billion people.
- And China's accession will provide the U.S. with stronger protection against China's unfair trade practices through a safeguard that provides penalties against damaging import surges.

Considering its immediate and potential impact on the American economy, supporting China's WTO membership should be a top priority. According to the Institute for International Economics' conservative estimates, passage of China's WTO entry will result in an immediate increase in U.S. exports of $3.1 billion. While we cannot ignore the fact that U.S. exports to China have grown throughout the past twenty years from nothing to over $14 billion annually, China's WTO accession is the best cure for the U.S.-China trade deficit.

According to Commerce Department figures, the U.S. imported a tremendous $71.2 billion from China in 1998 but exported a meager $14.3 billion in the same year. That's a 5:1 ratio—in China's favor.

With the WTO agreement, that ratio will shrink.

A vote against PNTR for China will prevent this from happening. If we deny China PNTR, WTO rules allow China the right to legally prohibit U.S. access to the very benefits Republican and Democratic Administrations have worked to achieve for over thirteen years. Under this scenario, the U.S. economy—not the Chinese—will suffer the consequences.

CHINA'S HIGH-TECH INDUSTRY: A GOLDEN OPPORTUNITY

Nortel Networks and the U.S. high-tech industry stand to gain tremendously from China's accession to the WTO. China is the world's fastest growing telecom market. In fact, its cellular market is expected to be second only to the U.S. by the end of this year. China's telecommunications equipment market, valued at $19 billion last year, is anticipated to grow 20-40 percent annually. Internet subscribers in China have more than quadrupled and are expected to reach an astounding 20 million by the end of the year. At present, China's state-owned enterprises represent the majority of business in China, but Congress holds the key to unlocking that market and opening it up to American business.

- Permanent normal trade relations with China will allow U.S. high-tech businesses unprecedented access to Chinese markets. By 2005, our products will no longer be subject to tariffs averaging 13 percent and, immediately upon accession, China will remove burdensome import quotas.

China will no longer impose technology transfer requirements and we will, as a result, have greater protection for our proprietary products. Those changes will allow the high-tech industry to:

- Export products directly from the U.S. rather than being forced to set up manufacturing facilities in China. This means increased jobs in the U.S.
- Enjoy national treatment and no longer be faced with anti-competitive "buy China" requirements.
- And, one of the greatest breakthroughs—China has agreed to sign onto the WTO Basic Telecommunications Agreement. With this signature, the U.S. high-tech industry will finally gain access to China's public telecom network that will be regulated by an independent regulatory authority. Increased competition means increased business for us.

It is no secret that America's information technology industry is the catalyst for the tremendous economic growth the U.S. is witnessing. We are the largest manufacturing sector in the U.S. and we have fueled 44 percent of our domestic economic growth since 1994. Our employees have profited from our success. IT workers earn an average of 77 percent more than the average American worker.

We have created positive and unparalleled change here at home and we should not be denied the opportunity to do the same in China.

WTO MEMBERSHIP WILL BE A POSITIVE FORCE OF CHANGE IN CHINA

WTO membership will be a powerful, positive and legally mandated force for dramatic change in China. Since the U.S. re-engaged with China over twenty years ago, U.S. companies have improved wages and working conditions in China by providing high-paying jobs and promoting entrepreneurship in a manner state-owned enterprises never viewed as necessary.

In November, Chinese negotiators agreed for the first time to allow American companies to play a central role in building China's information infrastructure. By making this concession, China has committed to an open Internet environment that allows its citizens more communication with each other and increased access to the world beyond China's border. This moves China closer to a concept I have promoted throughout my career—communication is the best mechanism for generating tangible change in a country that has a history of repressing free speech.

Building bridges of communication always forges social, political and economic reforms.

The changes will be felt in other areas as well. The business climate in China will go through a renaissance.

China's concessions will bring an unprecedented level of competition in China. Most significantly, China's state-owned enterprises will compete on commercial terms. As it has done in all market-oriented economies, increased foreign competition and investment will foster lower prices and technological innovation, and will contribute to significant increases in wages and living standards.

CONCLUSION: ENGAGEMENT IS OUR BEST LINE OF DEFENSE IN CHINA

Three years ago, ten former Secretaries of Defense, including myself, sent this letter to President Clinton reaffirming our view that renewing most favored nation trading status for China will promote the U.S.' national security interests. In that letter, we recognized that while there are "several thorny and disturbing issues in the complicated [bilateral] relationship, . . . the most promising way to reach the goal of a stable China is for the U.S. to continue to build a relationship of mutual engagement with China." That statement is truer today than ever before.

Our two countries have had their differences and we will continue to differ. Engagement, however, has enabled us to pursue our national security interests by building relationships between our militaries and governments. Regular meetings over the years have increased our understanding of one another's military strategies, cultures and politics.

Congress has voted in favor of engagement with China for twenty years. This year, we have the opportunity to give industry a more predictable climate in which to operate, and assuage industry concern's that Congress will pull the plug on our bilateral relationship. Denying PNTR for China will irreversibly damage our often times fragile relationship with our fourth largest trading partner.

China will interpret our denial of PNTR as the adoption of a policy of confrontation and will exercise its legal right under the WTO to bar U.S. companies from reaping the benefits of its WTO accession. In turn, the presence of U.S. companies in China will stagnate and we will be unable to compete against our competitors who enjoy the benefits of China's WTO accession. A policy of engagement with China is our best line of defense against this grave consequence.

I strongly believe that PNTR and China's WTO accession will help the Chinese people gain increased access to communications tools like the Internet. These tools cannot be controlled and they will help connect the Chinese people to the rest of the world like never before. If the U.S. is to play any kind of role in this transformation, we must grant PNTR for China.

Granting PNTR to China will guarantee U.S. companies access to China on our terms; denying PNTR will place the terms of our access in China's hands.

Congress must decide which alternative to choose. From an economic and business perspective, it's an open and shut case. We hope you make the right decision.

Thank you for inviting me to appear before you. I would be pleased to answer your questions.

Senator HAGEL. Mr. Younts.

STATEMENT OF RICHARD YOUNTS, EXECUTIVE VICE PRESIDENT AND SENIOR ADVISOR TO THE CEO, OFFICE ON ASIA PACIFIC AFFAIRS, MOTOROLA, INC., AUSTIN, TX

Mr. YOUNTS. Thank you, Mr. Chairman. It is a pleasure to be here this morning representing Motorola.

I am here today to add Motorola's voice to the chorus of support for the passage of permanent normal trade relations for China. I have spent the better part of my professional career building Motorola's businesses in the Asia-Pacific region, first in Japan, and then in the rest of the region.

For the past 10 years, I have been building our business in China. I am proud to say that we are the largest American investor in China, and one of the, if not the most, successful companies operating in China.

We derive more than $3 billion a year in sales from our China operations, and have exported from the United States to China about $5 billion over the last 5 years. So as you can tell, from Motorola, the China market is here and now.

I will not dwell on the merits of the U.S.-China agreement. That is because it goes without saying that for most American companies, including Motorola, this is a great deal. The concessions are unilateral, and they are real. They include trading rights, distribu-

tion rights, trims, trips, elimination of import licensing and quota; in short, an open market.

This is the best trade deal we have ever negotiated. It provides genuine market excess for American goods and services, and effective enforcement measures to ensure compliance.

As I explain in my written statement, the agreement is especially important for American high-tech industries. I do not believe there is an issue before Congress this year that is more critical to the future and to our competitiveness.

I just returned from China, spent 3 weeks there, and in the last couple of days had a series of meetings on Capitol Hill discussing the importance of PNTR. I would like to use my time today to address some of the arguments against PNTR, and I believe they fall into four categories.

The first issue is jobs. We have heard all the arguments advanced by opponents of PNTR that the simple fact is that the failure to pass PNTR will have pronounced negative impact on American jobs. Why? Because the deal is about market access to China. It is not about market access to the United States.

Make no mistake, China will join the WTO regardless of how Congress votes; and if Congress does not pass PNTR by that time, it will place American firms that sell and operate in China at risk. U.S. exports to China will fall at the cost of American jobs, and we and other American companies will see the benefits of expanded trade accrue to our foreign competitors. On the positive side, approval of PNTR would expand U.S. exports, and that means U.S. jobs.

The second issue we hear is that of enforcement. Critics of China's accession argue that while it may be a great deal on paper, and it is, China does not and will not live up to their trade commitments. I do not believe this is a valid reason to oppose PNTR or China's accession to the WTO.

The WTO gives us an opportunity for the first time to enforce a trade agreement with China, and for once, we will not stand alone and put U.S. exports at risk, and when we press a complaint with China, we will have the backup of 134 other nations.

A third issue involves Taiwan and national security. I am a businessman, not an expert on foreign policy or national security, but I would like to point out that the President-elect of Taiwan, as was mentioned by Frank, has made it clear in statements, that he supports PNTR for China and China's accession for WTO. If Taiwan sees this as a good thing for their national security and economic interests, I do not see this as a problem.

Plus, Congress always reserves the right to rescind PNTR and take other actions to safeguard our national security interests, if circumstances warrant.

Finally, I would like to address the human rights issue. I have worked in China for 10 years now, and I believe in my heart and in my head that Motorola, through its commercial engagement with China, has been a powerful and positive force for change. We have contributed in no small way to the process of reforming and transforming China. We do not only export American goods to China; we export American values.

Our presence there sets important examples for the American way and our commitment to core principles, help promote a more open, responsible government, and a more open society. Those profound implications not only promote our commercial interests, but America's broad international interests.

As one who has been there, I can attest: China is changing. I have seen it for the last 10 years, and I saw it when I was there last week. I see evidence of it every time I visit. No doubt, there are significant problems that remain, but further progress is best achieved through economic engagement, covered by established rules of global trade.

I urge the Congress to recognize PNTR for what it is, an invitation to create new opportunities for American workers, for farmers, and for companies.

To the extent that human rights, the environment, or national security concerns enter the debate, America's leverage is only enhanced, not weakened, by congressional approval of PNTR.

It is not a question of rewarding China for policies that we find troublesome or even objectionable. It does not ignore the fact that U.S.-China relations remain very complicated, fraught with controversy that require constant attention, but these issues do not justify refusal by Congress to seize the benefit accorded by PNTR and WTO.

We must remain cognizant of the problems that divide our two countries and exploit the promise of expanded commercial relations under global rules of trade as a way to address and resolve these differences.

In closing, PNTR status is not a blanket endorsement of China's behavior. It is one of the most effective ways we can advance America's economic objectives and influence development inside China.

At its core, however, is an issue of American jobs. PNTR costs us nothing. The failure to pass PNTR costs us much. We urge Congress to cast a vote that in every way supports the American workers, the American economy, and America's global interests by approving PNTR status for China.

Thank you, Mr. Chairman.

Senator HAGEL. Mr. Younts, thank you.

[The prepared statement of Mr. Younts follows:]

PREPARED STATEMENT OF RICK YOUNTS

Chairmen Chuck Hagel and Craig Thomas, Senators John Kerry and Paul Sarbanes, Members of the Committee, thank you for this opportunity to appear before you and add Motorola's voice to the many others that have been raised in recognition of the importance of China's accession to the World Trade Organization (WTO). On behalf of our 130,000 employees, I urge swift approval of Permanent Normal Trade Relations (PNTR) status with China. This historic step would be good for Motorola and good for America. Approval of PNTR would institutionalize a trade relationship that Congress has ratified on an annual basis for the last 20 years. PNTR also would unlock enormous possibilities in China for U.S. high-technology companies. As Motorola Chairman and CEO Chris Galvin testified in February before the Senate Finance Committee:

> No issue currently before Congress will have a greater impact on the high-tech community, and America's ability to compete in the New Economy, than China's accession to the WTO and the market opening that brings.

I intend to use this forum to address some of the arguments advanced by critics or opponents of PNTR. But before turning to what this issue is not about, let's be

very clear about what it is about: American jobs. Today more than ever, American companies are looking to global markets for growth and competitive edge. In the New Economy, national borders and trade barriers give way to economic interaction and open markets. Though this transition is still under way, and its progress neither quick nor easy, this is the future—and where we and others will look to strengthen America's role in the global marketplace and create new opportunities that support American jobs. Permit me to reinforce what others have said: a failure to approve PNTR cedes those job-creating opportunities to America's foreign competitors. It also denies us the substantial benefits that China's accession to the WTO would have for America's economic and security interests.

MOTOROLA'S HISTORY IN CHINA

I believe that Motorola is uniquely positioned to comment on doing business in China and the judgment Congress has been asked to render on PNTR. We speak not only of hopes for the future, but from years of practical experience marked by commercial success that has helped encourage economic reform and create a better standard of living for China's people.

Make no mistake: We have pursued our strategy of engagement in China with "eyes wide open." Our experience as the leading U.S. investor in China has not been without its challenges, whether related to China's economic transition or the periodic ups and downs of our overall bilateral political relationship. But I can report to you today that our decision in 1986 to establish a commercial presence in China has been an unqualified success for Motorola, our employees and the many American companies that support our operations there.

Motorola operates the largest wholly foreign-owned subsidiary in China, and we have another seven joint ventures in the country. Our U.S. exports to China amount to approximately $500 million a year, and sales from our China operations have been running about $3 billion a year, or around 10 percent of our total global sales.

What has this meant beyond the balance sheet? A great deal that goes to the very heart of concerns some have raised in the debate over PNTR and WTO accession for China. Motorola has served as a force for positive change in China. We have contributed in no small way to a process that is reforming and transforming China. We export not only American products to China, but American values. Our presence there sets an important example of the American way. Through uncompromising integrity and best practices in the conduct of our business, Motorola demonstrates how China can cope with various contemporary challenges: creating a work environment that promotes creativity and harmony; balancing individual or corporate interests against the interests of society; and seeking efficiency while providing employees with an ever better standard of living.

In doing so, Motorola does not attempt to assume a missionary role. But in China as throughout the world, we work to assure that our business activities reflect concern for all of our stakeholders, and that they maintain the highest standards in respect for the individual, responsibility to the consumer, protection of the environment, and support for open and fair markets.

The products of this commitment to core principles are evident:

- We contribute to a more open and accountable government, through steadfast policies forbidding conflicts of interest and improper influence over bureaucratic regulators.
- We promote a cleaner environment by consistently exceeding PRC environmental requirements.
- Through constant training from the top to the bottom of the corporation, we enable our employees to exercise their own judgment and to be innovative in their work.
- We promote personal responsibility by standing behind our products in the marketplace and providing unconditional guarantees to the customers.
- By providing a work environment with standards of cleanliness, performance, remuneration, and fairness well beyond those offered by almost any Chinese company, we have helped raise the expectations of our Chinese employees, who then become more assertive as employees and, perhaps, as citizens.
- Our support for educational and career development programs helps prepare men and women who, exposed to our values and experience, will have key roles in the continuing economic and social transformation we all want to see in China. That has profound implications not only for our commercial interests, but America's broad international interests.

EFFECTING CHANGE IN CHINA

China is changing. I see new evidence of that every time I visit the country. There is lively, open debate about capitalism, market reforms, police brutality, the rights of the accused, and the role of human rights in a socialist economy. No one questions the fact that significant problems remain. But I have witnessed laudable advances that can be further encouraged only through continued economic engagement governed by established rules of global trade. Motorola's activities in China have been guided by the firm belief that our role is not to render judgment of China's policies from the sidelines, but to be an active participant in the complicated process of modernization and hope we can bring the best of what we have learned at home to our operations overseas.

I am attaching for the record (Attachment 1), a commentary that was published in the Wall Street Journal by Michael Santoro, a professor of business ethics at Rutgers University. Professor Santoro concludes that fostering further economic and political liberalization within China is most effectively achieved not through campaigning good business practice Professor Santoro said in his testimony last month before your colleagues on the Senate Finance Committee:

> Ratifying the World Trade Organization agreement with China and granting it permanent normal trading relations advances America's interest in promoting human rights and democratic values. . . . As China opens itself more and more to the outside world, its society will inevitably change as a result of the contacts with foreigners. Indeed business people constitute by far the single most important foreign source of social change within China . . . [and] many of these changes have important positive implications for democracy and human rights. Granting China PNTR will accelerate these social changes. Ultimately these social changes will pose a formidable challenge to China's government, as profound contradictions emerge between the Communist Party's authoritarian rule and China's increasingly free economy and society being created by private enterprise and the free market."

The issue of human rights remains a major point of contention in U.S.-China affairs. It is a concern shared by all of us and one that will require continued attention at the government-to-government level. But experience tells that that those most troubled by human rights should be among those most supportive of the expanded commercial relationship that would result from China's WTO accession and implementation of the many concessions China made in the bilateral market-access agreement that would flow from approval of PNTR.

PNTR: GOOD FOR AMERICAN WORKERS AND AMERICAN HIGH-TECH

In recent years, we have seen encouraging progress by China in removing various impediments common to global commerce. China has fostered protection for intellectual property, reductions in tariff and non-tariff barriers to trade, and the expansion of a legal and regulatory regime that governs commercial activity. At the same time, we know as well as anyone that problems remain and continued progress in trade liberalization and market reform must be made. Fortunately, Congress can make that happen—but only if it acts as soon as possible to realize the untold benefits represented by PNTR.

It is nothing short of essential that the world's most populous nation be brought under the umbrella of the organization that sets and enforces the rules of global trade. Congress can decide whether that happens with the participation of the U.S. or without it. And we should be clear that this is the choice. China will join the WTO, but American firms and workers will reap the benefits of China's market-opening moves only if Congress approves PNTR and we agree to treat China no worse than we treat any other WTO member.

The bilateral agreement reached in November is comprehensive in its scope, providing substantially greater market access for U.S. goods, and services, lower tariffs, and broad trading and distribution rights, for nearly every sector of the U.S. economy. This is especially true for American high-tech. American high-tech firms across the board—manufacturers of semiconductors and semiconductor equipment and materials, computers, electronics, software and telecommunications equipment, as well as U.S. internet companies and telecom service providers—have much to gain from the commitments that China made last fall and now rest in Congress' hands.

Several people have asked us why Motorola is so adamant about the need for WTO accession when it has achieved so much in China without it. The answer is simple. For all we have accomplished in China to date, PNTR and WTO accession are key to vast new opportunities that can make Motorola an even stronger global

competitor, to the undeniable benefit of our American employees, suppliers, shareholders and the communities where they live and work.

I am attaching (Attachment 2) our own comprehensive analysis of the benefits contained in the bilateral market-access agreement negotiated last fall. Of particular interest:

- Enhanced market access: Accomplished through the application of national treatment to imported goods, tariff reductions, the phase-out of non-tariff trade barriers—such as import licensing and quotas—and the extension of trading and distribution rights to all foreign and domestic firms. Tariff rates on information technology equipment such as cellular phones (currently 12 percent) and batteries (18 percent) will fall to zero. Existing import quotas and licensing requirements currently applied to telecom equipment will be phased out, and the right to engage in importing and exporting will be extended to all foreign and Chinese enterprises.
- Investment in telecommunications services: Rules permitting increased foreign investment and management of telecom services in China will accelerate the development of one of the world's largest and fastest-growing telecom markets, creating new opportunities for equipment manufacturers and service providers.
- Greater transparency: Reduced uncertainty in U.S.-China trade, through greater clarity in government regulation, the formal binding of China's tariff schedule, and creation of a process for effective multilateral dispute resolution.
- Accelerated transformation to a market economy: Locking in and promoting further reforms that will accelerate China's transformation from a non-market to a market economy.

In short, while Motorola is proud of what it has achieved to date in China, that may a slice of what is possible under the more open, transparent, enforceable and reform-oriented trade regime that would come from China's accession to WTO.

IN SUMMARY: PNTR AN INVITATION TO NEW OPPORTUNITIES

We urge Congress to recognize PNTR for what it is: an invitation to create new opportunities for American workers, farmers and companies, and a positive force for change in China. To the extent that human rights, environmental or national security considerations enter this debate, progress on those issues—and others—is only enhanced, not weakened, by the leverage America stands to gain with congressional approval of PNTR. This is not a question of "rewarding" China for policies we may find troublesome or objectionable. It neither ignores nor glosses over the fact that the U.S.-China relationship remains a complicated one—fraught with controversies and requiring constant diplomatic stewardship. Nothing provided a more vivid reminder of that ongoing reality than the recent tension that surrounded the elections in Taiwan. Legitimate concerns over continued irritants to U.S.-China relations do not justify a refusal by Congress to seize the benefits accorded by PNTR. We must remain cognizant of the problems that divide our two countries and exploit the promise of expanded commercial relations—under global rules of fair trade—as a way to address and resolve our differences.

In short, PNTR status is not a blanket endorsement of China's policies. Quite to the contrary, it is one of the most best tools we have at our disposal to advance America's economic and security objectives and influence developments inside China. At its core, however, this issue is about jobs. American jobs. PNTR costs us nothing. A failure to pass PNTR costs us much. We urge Congress to cast a vote that in every way supports American workers, the American economy and America's broad global interests by approving PNTR status for China.

[Attachments].

ATTACHMENT 1

[From the Wall Street Journal: Managers Journal, June 29, 1998]

PROMOTING HUMAN RIGHTS IN CHINA IS GOOD BUSINESS

(By Michael A. Santoro)

Contrary to what you may have heard, multinationals doing business in China can help foster democracy and human rights there.Indeed, by pursuing their own self-interests effectively, companies help the people of China. In fact, it is the best-run and most successful companies that make the biggest impact.

The most obvious contribution foreign companies make is economic. Generally speaking, they pay better than domestic companies, helping to reduce poverty and create a middle class with power and interests independent of the state.

But there are other, more subtle ways in which companies can help improve China's situation. According to research I've conducted with foreign managers and Chinese workers, foreign enterprises impart a wealth of formal and informal learning about values and behavior that can help to build and sustain democracy and foster support for individual rights.

One way foreign companies make a decisive difference is simply by pursuing a policy that all good firms should be practicing at home anyway—namely hiring and promoting on the basis of merit. In Chinese companies, the best jobs typically go to those with the best guanxi, or connections. A typical anecdote: A Chinese woman working for an American investment bank in Shanghai told me that when she graduated from university she had wanted to work for a Chinese commercial bank, but her parents didn't have powerful connections. Now she is happy that her promotions will be based upon her performance.

The reasons why foreign managers generally hire and fire on merit is obvious to Westerners: They must answer to owners who care first and foremost about the bottom line. By doing so, they foster what in China is a radical notion—that individual merit should be rewarded. This sense of the value of the individual and of fairness is intrinsic to capitalism. It is, at the same time, an essential characteristic of a culture that respects human rights. In other words, by simply doing what comes naturally, well-run firms can foster human rights.

Another modern corporate practice that helps China's development is teamwork. Companies like Wall's, the ice cream subsidiary of Britain's Unilever PLC, understand that their commercial success depends upon teamwork, initiative and the sharing of information. Wall's general manager for China, Duncan Garood, is concerned about market share and profits, not politics. Recently he dispatched a team to cut the costs of a particular product. To accomplish this, the workers had to put their heads together and think creatively. Again teamwork, initiative and the sharing of information are hallmarks of a democratic culture. By teaching these skills, foreign companies are helping put in place values and practices that in the long run help foster democracy.

The companies with the deepest commitment to China have set up elaborate training programs for their workers. One U.S.-based manufacturing company with more than 750 workers in Asia sends each of its employees through a training program coordinated from Hong Kong but conducted by locals in the local language. Listening to the company's regional director of training and education explain the training program, one can grasp right away how the training can have a political dimension: "We change a lot and we change very quickly. We don't do things the same every time. We improve. We're not focused on the past. We value open and direct communication." Open communication and receptivity to change are ideas that can't be confined to the workplace once they're out there.

The German-based chemical giant BASF, which employs more than 2,000 people in China, has set up a management development center at Shanghai's elite Jiao Tong University. Seeking to teach "leadership and communication," the BASF program calls for its local executives to "share their thoughts, insights and experiences in a distinctly proactive way." This emphasis on leadership and communication is in marked contrast to the management style prevailing in Chinese state-owned enterprises, where, as the old Chinese proverb goes, the nail that sticks up will be hammered down.

Such training does not take place only in China. Many foreign companies send their top employees on tours of their headquarters to develop better communication, or for MBA training at top schools.

One must be careful not to overstate the impact that foreign companies can have on the development of democracy in China. It will be interesting to see, for example, whether state-owned enterprises will adopt state-of-the-art management techniques successfully to meet foreign competition. The spill-over effects of business activity on political and social change in China are limited initially to the people who work for multinationals and those who associate with them. Still, the potential is great. As Ken Grant of Hong Kong-based Market Access puts it: "Who's to say what the impact will be when a couple of guys are talking over beer after work and comparing their experiences of working in a state-owned company with those in a foreign company?"

[From the Wall Street Journal Asian and Europe Editions, June 1 & 12, 1998]

DOING GOOD WHILE DOING WELL IN CHINA

(By Michael A. Santoro)

Contrary to what you may have heard, multinationals doing business in China can help foster democracy and human rights. But here is the best part: It is by pursuing their own self-interests effectively that companies do good. In fact, it is the best-run and most successful companies that make the biggest impact.

The most obvious contribution foreign companies make is purely economic, of course. Generally speaking, they pay better than domestic companies, helping to create a middle class with power and interests independent of the state. The reduction of poverty alone is a step in the right direction in terms of human rights.

But there are other, more subtle ways in which companies can help improve China's situation. According to research I've conducted with foreign managers and Chinese workers, there is a wealth of formal and informal learning at foreign enterprises about values and behaviors that can help to build and sustain democracy, and foster support for the rights of the individual.

One way foreign companies make a decisive difference is simply by pursuing a policy that all good firms should be practicing at home anyway, namely hiring and promoting on the basis of merit. Sadly, among Chinese companies, this is seldom the case; the best jobs often go to those with the best connections, or guanxi. In a typical anecdote, a Chinese woman working for an American investment bank in Shanghai told me that when she graduated from university she had wanted to work for a Chinese commercial bank, but her parents "didn't have powerful connections." Now she is happy that her promotions will be based upon her abilities rather than how well she gets along with her boss.

The reasons why foreign firms generally tend to hire and fire on merit is that they must answer to owners who care first and foremost about the bottom line, so they simply cannot afford such a personal style. If they don't pay for performance, they will soon go out of business. By doing so, they foster the radical notion—radical at least in China and some other places around the globe—that individual merit matters and should be rewarded.

This sense of the value of the individual and of fairness is intrinsic to capitalism. It is, at the same time, an essential characteristic of a culture which respects human rights. In other words, by simply doing what comes naturally, well-run firms can make a positive human-rights contribution.

Another modern corporate practice that helps China's development is teamwork. Companies like Wall's, the ice cream subsidiary of U.K.-based Unilever, well understand that their commercial success depends upon teamwork, information-sharing, and initiative.

Wall's general manager for China, Duncan Garood, is a businessman concerned about market share and profits, not politics. Recently he dispatched a cross-functional team to cut the costs of a particular product whose costs, he thought, were getting out of line. He was rewarded with a 10% cost reduction without loss of quality.

To accomplish Mr. Garood's assignment, Wall's workers had to put their heads together and think creatively about re-engineering the product. These are, of course, the trendiest ideas in modern management science. Any firm not practicing them isn't likely to be competitive for very long. Again, though, teamwork, information-sharing and initiative are also the hallmarks of a democratic culture. By teaching these skills, foreign companies are helping to put in place values and practices which in the long run help to sustain a democracy.

The firms with the deepest commitment to China, in fact, have set up elaborate training programs for their workers. One U.S.-based manufacturing company with more than 750 workers in Asia sends each of its employees through a training program coordinated from Hong Kong but conducted by local trainers in the local language. Listening to the company's regional director of training and education explain the training program, one can grasp right away how the training can have a political dimension: "We change a lot and we change very quickly. We don't do things the same every time. We improve. We're not focused on the past. We value open and direct communication." Open communication and receptivity to change are ideas that can't be confined to the workplace once they're out there. Not for too long, anyway.

German-based chemical giant BASF, which employs over 2,000 people in China, has set up a Management Development Center at Shanghai's elite Jiao Tong University. Seeking, among other things, to teach "leadership and communication," the BASF program calls for its local executives to "share their thoughts, insights and

experiences in a distinctly proactive way." This emphasis on leadership and proactive communication is, again, in marked contrast to the management style prevailing in Chinese state-owned enterprise where, as the old Chinese proverb goes, the nail that sticks up will be hammered down. The training, incidentally, does not take place only in China. Many foreign companies send their top employees on tours of headquarters to develop better communication, or for MBA training at top schools.

One must be careful not to overstate the impact that foreign companies can have on the development of democracy in China. It will be interesting to see, for example, whether state-owned enterprises will adopt state-of-the-art management techniques successfully to meet foreign competition. The spillover effects of business activity on political and social change in China are limited initially to the people who work for cutting-edge multinationals and those who associate with them. Still, the potential is great. As Ken Grant of Hong Kong-based Market Access puts it, "Who's to say what the impact will be when a couple of guys are talking over beer after work and comparing their experiences of working in a state-owned company with those in a foreign company?"

ATTACHMENT 2

MOTOROLA STATEMENT ON CHINA'S ACCESSION TO THE WTO AND PNTR—JANUARY, 2000

China's accession to the World Trade Organization is good for the United States, the world, China, and Motorola.

- The U.S. benefits by gaining better access to China's markets for American manufactured goods, services, and agricultural products.
- The world benefits by applying the rules and obligations to one of the largest trading nations.
- China benefits by promoting and implementing economic, legal, and regulatory reforms necessary to sustain and promote further economic growth.
- Motorola benefits through expanded market opportunities in China.

Specific benefits to Motorola are:

- Enhanced market access: Accomplished through the application of national treatment to imported goods, tariff reductions, the phase-out of non-tariff trade barriers—such as import licensing and quotas—and the extension of trading and distribution rights to all foreign and domestic firms. Tariff rates on information technology equipment such as cellular phones (currently 12 percent) and batteries (18 percent) will fall to zero. Existing import quotas applied to telecom equipment will be phased out, and the right to engage in importing and exporting will be extended to all foreign and Chinese enterprises.
- Investment in telecommunications services: Rules permitting increased foreign investment and management of telecom services in China will accelerate the development of one of the world's largest and fastest-growing telecom markets, creating new opportunities for equipment manufacturers and service providers.
- Greater transparency: Reduced uncertainty in U.S.-China trade, through greater clarity in government regulation, the formal binding of China's tariff schedule, and creation of a process for effective multilateral dispute resolution.
- Accelerated transformation to a market economy: Locking in and promoting further reforms that will accelerate China's transformation from a non-market to a market economy.

Unconditional MFN is a cornerstone of the WTO. To secure the benefits of China's WTO commitments, the United States must recognize China as a full WTO Member by extending Permanent Normal Trade Relations (PNTR). If the United States withholds PNTR, the benefits of China's market-opening may go to our competitors in Europe and Japan, while U.S. products and services are excluded.

Scorecard on Motorola's Priority WTO Issues

(January, 2000)

ISSUE	OBJECTIVE	CURRENT STATUS	ASSESSMENT
Tariff Reduction	Reduce and bind industrial tariffs, Accession to Information Technology Agreement (ITA) upon WTO accession.	China has agreed to reduce and bind industrial tariffs at an average rate of 9.4% (7.1% for priority products). China has further agreed to ITA with tariff reductions commencing upon WTO accession. Most ITA tariffs will be eliminated by 2003, and all by 2005.	Very good in terms of scope, rates and timing. ITA commitments will assist in sales of Motorola telecom and semiconductor equipment. Motorola currently faces PRC tariffs of 20% for pagers, 18% for batteries, and 12% for cell phones. All will fall to zero.
Trading and Distribution Rights	The right to import and sell the full range of Motorola products in China (not just products we make in China). To date, China has granted trading rights to a limited number of PRC firms. Foreign invested enterprises have the right to import, but only the inputs necessary for their manufacturing in country, and to export only those products they make in China.	China has committed to grant universal trading and distribution rights to all foreign and domestic firms within 3 years of WTO accession. China has accepted a broad definition of distribution rights to cover all forms of distribution, including retail and wholesale, transportation, logistics, and after-sale service.	Very good. Will promote Motorola's ability to sell the full family of Motorola products and provide after-sales service with a ready supply of imported components.
National treatment for foreign goods and services.	Removal of ''bad local'' requirements and other import substitution policies applied on purchase of telecom equipment. Imports currently subject to separate inspection regimes than same products made in China.	National treatment is a non-negotiable WTO principle.	Good. Will help deal with ''buy local'' policies used for cellular equipment, and to standardize safety inspections, and standards criteria.
Transparency	Increased transparency in rules and regulatory structures, and consistency in the enforcement of rules.	China has committed to enforce only those rules that have been published, and to establish procedures for public comment. China has further committed to establish procedures for judicial review of administrative actions that implement the WTO agreement.	Good, but expect continued problems at the local and provincial level.

Senator HAGEL. Each of you represent companies that have been very successful in China. You have done it right.

I would like each of you to address some of the fundamentals on why you have been successful, why you have done it right, how you have done it right. And maybe you could then each talk a little about where the biggest challenges will come from—that is based, of course, on your experience—as we move forward and these things are put in place. I suspect we will get a positive vote on this here in the Congress.

And what are the high-tech companies going to have to really focus on, namely the concerns, issues, and challenges? And then maybe round it out with your thoughts on what you think will be the biggest difficulties China will have in implementing their responsibilities as a member of the WTO.

So however you want to take all that, just have at it, Mr. Secretary. We will begin with you.

Mr. CARLUCCI. Well, one of the reasons that we have been able to grow in China is that we have been very careful to be responsive to Chinese needs. They have placed heavy emphasis on technology transfer. And in addition to four joint ventures, we have two R&D centers in China which have helped them work technology basically in the mobile phone area. We also are trying to develop a new technology for them, CDMA, but they have not yet decided whether they want to utilize that.

While we have been responsive to their technological needs, we have also adhered very strictly to the values of our company, the high standards, merit-based employment. We follow the same environmental standards in China that we follow here in the United States.

We have behaved in all respects like an American company, and that has been a good thing. The Chinese really do want to relate to the external world.

They have decided, they have made a commitment, as I had mentioned earlier—this point was stressed to me—that they want to enter what he called the "new economy." So they have made that commitment and are willing, as I said, to pay the price to enter into the new economy. They know this is going to be difficult.

I visited with several of the ministries that will be implementing WTO regulations, and one minister said, "There will be both challenges and opportunities, but I think the challenges are going to be greater than the opportunities." Well, that represents his personal point of view, but there has been a commitment at the top to do it.

It is going to mean a large shift in their mentality, away from state-owned enterprises, into a market economy. My own view is—and Rick has had more experience than I have in China—but the Chinese, at the working level, will take very readily to a market economy.

The shift in mentality is going to have to be at the political level, but I think that shift is happening, and PNTR will accelerate that shift.

Senator HAGEL. Thank you.

Mr. Younts.

Mr. YOUNTS. Yes, Mr. Chairman. First, the question about success in China. Motorola entered China in 1992 on a contract that was signed with the Chinese in late 1991. We entered China as a wholly owned company. Still 85 to 90 percent of our sales in China come from our wholly owned activity. The majority of our technology is transferred through that organization.

We do have eight joint ventures across China in various parts of our manufacturing process, several R&D facilities, all of which are wholly owned by Motorola. Today, we have 10,000 employees working in Tianjin and Beijing.

All elements of our operations have been installed in China, and like Frank said, we operate as an American company in China. All of our values are transferred to China, are expected to be lived up to by Chinese employees. The two major ones are constant respect for people and uncompromising integrity.

We teach that to all of our people, to our suppliers, and to our distribution channels; therefore, my comment earlier about making a change in some fundamental beliefs in China. We have used that base of capability to serve the Chinese market in telecommunications, semi-conductor, two-way equipment, and other types of technology.

We continue to grow quite rapidly. I mentioned that about 10 percent of our corporate revenue for 1999 came out of our Chinese operations, and we expect that, with PNTR, to continue to grow as the market would open.

The most difficult thing that I see, and it was mentioned by Frank, that China has to face is state owned enterprise [SOE] reform. At one time, they had about 370,000 SOE's, most of which were not competitive internal, much less external. And if China opens to the outside world, it is going to obviously put a lot of pressure on these SOE's to either perform or to go bankrupt.

The Chinese have been reforming the SOE's for a number of years now. I believe they are down now to about 70,000 SOE's that are still on the books, and those are being combined with each other to try to make them strong enough to survive, and other parts of a reform program are going on.

Obviously, I think that is going to be potentially a big issue, unless managed correctly. Unless reform is pulled off, it could create dramatic social issues, unemployment and other types of social issues for the Chinese. I see that as their biggest issue.

Senator HAGEL. Mr. Younts, just a footnote in history: I arrived in Beijing on New Year's Day of 1984 with a Motorola cellular telephone specialist at my side. These were in the days, as Frank knows, when I had a real job, and did not have the high honor of being a Government employee, as I do now.

I had a cellular telephone company that my partners and I put together, and I formed an international company, it was not much of one, but we called it an international company. Back in 1982 and 1983, when my partners and I got into this business of cellular telephony, most people thought it had something to do with your health.

So I had a Motorola specialist with me, and we spent 10 days all over China on trains and planes. It was a most enlightening experience for me, for many reasons, but I was interested when you said

you had formed your company in 1991, 1990 or 1991—it is not that I am taking credit for bringing Motorola to China, but it does tell a little story of how long it takes to break into that orbit, and how long it took. I suspect, in relative terms, it was a rather quick entry, considering.

But I remember, as we would go into the various Chinese telecommunications entities—and I do not think there were any private sponsored organizations at that time—we would have sometimes 50 Chinese engineers that would be reading over that Motorola pamphlet. And being the crafty, agile marketers that we were, we had thought ahead and actually had that translated into Chinese, although somehow we brought the Saudi Arabian brochures with us, but those were minor problems.

I thought at the time how interested the Chinese were in understanding the potential of what this was. And I suspect one of the first things I learned about this was, as I did in Latin America for the next few years and other places, is when you have a technology, it is kind of like D-day on June 6. It probably was not good to be on that first wave at Normandy. You would far prefer to be on the third wave, stepping over those who had gone down before you.

We were on the first wave, so we were never very successful, but I watched Motorola develop over the years. What Frank's company has done, and it is instructive, because—as I asked the question, "why have you been successful and other companies have not"—and what you said was very important for all companies to listen to.

And the bottom line is: You focused on their needs. And when we talked over there in 1984, that was what we came away with as well. It is a pretty basic tenet of marketing—focus on their needs, and eventually you can break into the market.

So not that I have added or contributed to the dialog that is going with that story, but I have learned a lot from that 10 days in China, and I have been back many times since.

Let me ask your opinion, both of you, concerning what Chairman Thomas brought up this morning, that is the Lockheed issue, which is an extension of the Loral/Hughes problem.

Where do you break it down? How can you stop these components from getting into the hands of perceived bad guys, or real bad guys?

You know we have been struggling up here trying to re-authorize our Export Administration Act. We have not re-authorized that since 1994, and we are having difficulty again for many reasons. One of the things that I think concerns many of us, and each of you have touched on it this morning, is that the world is changing at such a phenomenal rate, we cannot keep up with it through Government policy.

I fear that in the process of us attempting to ensure, as much as we can, national security, we might, in fact, be screwing it down so tightly that we may well end up hurting terribly our high-tech industry, satellites being just one component of that. So I would be interested in each of your thoughts on that general issue.

What are we not doing right? What should we be doing now that we are not doing?

Mr. CARLUCCI. Well, in the area of information technology, dual-use technology, it is extraordinarily difficult in today's world to control exports.

The administration has just eased up a bit on its requirements on computer technology, and I think that is a desirable thing. If you go too far, you do restrict the ability of American companies to compete. On the other hand, if they are too loose, it is inimical to our national security interests. So you have to strike a balance.

I think Secretary Eizenstat emphasized the point that the administration intends to continue to enforce the export control regulations. There is certainly nothing in PNTR that would enhance the likelihood of technology transfer. On the contrary, PNTR removes the mandated technology transfer that China has insisted upon so far.

We are now at liberty to move some of that technology back to the United States, and export from the United States, should we choose to do so. So I think while it is an important, and it is an important issue, it is not relevant to PNTR. PNTR would not affect technology transfer one way or another.

Senator HAGEL. Do you have any advice outside of the PNTR dynamic on this issue, Frank?

Mr. CARLUCCI. No. Mr. Chairman, I have been out of Government now for 12 years or so, and my wisdom on those kinds of subjects is dwindling very fast.

I can say from my own experience that it is an extraordinarily difficult issue that has gotten more difficult with the passage of time. In an information society, it is perhaps the single most difficult issue that we face in dealing with countries overseas.

Senator HAGEL. Thank you.

Mr. Younts.

Mr. YOUNTS. Well, unlike Frank, I have not had the wisdom to dwindle in this area, but we have had two experiences of late through Motorola. One was the transfer of a technology for satellite launches on the iridium system that were licensed by Commerce, and approved by DOD, and actually monitored by DOD onsite.

And we felt that process was fair to us, and did, in fact, protect the technology that was of concern to both Defense and Commerce. So our belief is that that system worked pretty well, although it had been flawed since that time.

Recently, semi-conductor technology transfer to China also became an issue. We have had that process licensed now through Commerce, and again approved by the Department of Defense on semi-conductor processing technologies. That is being coordinated well, and we think the process seems to work both in our favor as well as protecting the technology. But this comes from a business guy, not an expert in this area.

Senator HAGEL. You each have just returned from China and Taiwan. Frank, I think you were in both, is that right?

Mr. CARLUCCI. That is correct.

Senator HAGEL. And Mr. Younts, you went to Taiwan.

Mr. YOUNTS. Just in PRC.

Senator HAGEL. I would be interested in each of your thoughts on what you perceive to be the Chinese expectations regarding what they will get out of joining the WTO, and out of permanent

normal trade relations with the United States? What do they believe? What are their expectations on this?

Mr. CARLUCCI. My experience was that it was the single-most discussed topic in China. They are very keen on entry into the WTO, perhaps, as I said earlier, best expressed to me by the President of China when he said they were going to enter into the new economy. They see it as their opening to the world. They see it as their opportunity to develop their country much faster, and they see it as an opportunity to deal with some of the complicated issues that they face.

My sense is that they are very much committed to the WTO process, recognizing that it is going to entail sacrifices, particularly as far as the SOE's are concerned, but it can be boiled down to one sentence: They want to be part of the world, and they do not want to live any more in isolation. They made that decision, and they are going to live with it.

Senator HAGEL. Mr. Younts.

Mr. YOUNTS. I think that is really two basic gets for China. It is, in fact, a continuation of something that Deng Xiaoping started in 1978, with an open market economy push for China, which has been re-endorsed in the MPC meetings that were held last month in China. So it is a continuation of that process, and a major step in that direction, because it opens China now to the world, and makes them part of the world trading community.

I think there is also a face issue, that China is ready to be a full member of the world, and wants to take their rightful position as one of the world leaders, and this gives them that opportunity.

As Frank said, I think they are ready for the down side, as well as the up side. I was there right after the announcement was made. And most of the ministries, if not all, went into a one- or 2-week closed session to figure out what they had to do to get compliant in their own areas, a very strong process of reviewing all of their procedures and processes to make sure that they would be compliant by the time WTO was ready to be offered and assessed by China.

So I think those are the primary gets for China, and I do not see any down sides at all for the U.S.

Senator HAGEL. Thank you. Let me ask each of you one more question. This was brought up directly and tangentially this morning in some of the testimony.

From what I understand, part of the breakdown with the European Union and the Chinese has centered around, to some extent, the percentage of foreign ownership of telecommunications firms. How did each of your companies deal with that and get around that issue?

Mr. CARLUCCI. Well, it does not really apply to us, because we are a manufacturer. It deals with the telephone service companies, so we have not been part of that negotiating process. We would benefit by increased competition, as China adheres to the WTO agreement on telecommunications as a manufacturer, but we are not—we do not get into the service business.

Senator HAGEL. But, Frank, why do you think that this has been a particularly big problem for the Europeans? Obviously, we would all like to have a 51 percent controlling interest in everything, but

there is a phase-in to this, and I have been a little surprised that they have allowed this to get somewhat out of the box. Are there any other thoughts you have on this?

Mr. CARLUCCI. Well, at the risk of sounding cynical, I think they would have to have a better agreement than we negotiated when they focused on this particular aspect. My own sense is that our companies can perfectly well live with the 50 percent requirement.

Senator HAGEL. Thank you.

Mr. Younts.

Mr. YOUNTS. We are also an equipment supplier, so it does not directly apply. It is my sensing that all American companies who are, are happy with the agreement that we have, and would be satisfied if the Europeans get 51 percent, that we would also get that deal, as was stated by the Secretary this morning. So it is really not a lose situation for us at all.

Senator HAGEL. Is that a general area that you had to deal with in any way when you first negotiated your entry into the Chinese market, and established your manufacturing bases there?

Mr. CARLUCCI. Not in our case.

Mr. YOUNTS. There was an issue in China in the early nineties that most joint ventures, and maybe Frank can address it as well, that required many of the ministries to have Chinese majority ownership. All of our joint ventures, we have majority ownership, and we have control of the board. So that was an issue we went into. Those were some very long negotiations, but that was an issue that we would not relinquish.

I think that is changing today, where China is becoming more flexible, because they are finding they have to in order to be able to get the kinds of partners that they are looking for.

Mr. CARLUCCI. We, too, went through joint ventures. I thought you were referring to the service industry, the 50-percent requirement.

We established joint ventures. You are required to establish joint ventures. Now, with PNTR, assuming it passes, that requirement will no longer exist, so it allows more latitude to export directly from the United States.

Senator HAGEL. Since you both represent manufacturing companies, how big a problem was technology transfer when you were negotiating your deals with China?

Mr. CARLUCCI. The Chinese insist on that. It is a big issue with them, and it is a question of how much technology do you want to transfer prudently? We have fortunately been successful in doing that.

Senator HAGEL. Mr. Younts.

Mr. YOUNTS. Well, we are wholly owned. Activity for a number, and all the technology that we transferred initially, was into our wholly owned activities. So once we started doing joint ventures, one of the concerns that we had, and the reason we asked for more than the controlling majority ownership was a technology issue, but it was also a business control issue.

Technology is a very broad area, so we have transferred technology to those joint ventures in ways of manufacturing technologies and manufacturing processes, and management skills, and so forth.

But in terms of technologies that would be a problem for national security, or that type of thing, that has not been the issue, and the technology that China really needs these days to be competitive in the world market and those markets that they are in is really on the low end of the technology spectrum.

Senator HAGEL. Gentlemen, would either one of you like to present any last parting word?

Mr. CARLUCCI. Just that we hope that the Congress passes PNTR. I think it is terribly important. I think it is one of the more important issues that I have seen in my career with government and business.

Let me echo what Rick said and what Stu said: This is a very one-sided agreement. I have seldom seen an agreement in my long career that has redounded so much to the benefit of the United States as the agreement that our STR negotiated, and I think PNTR is absolutely essential for the future of our relationships with China.

Senator HAGEL. Frank, thank you.

Mr. Younts.

Mr. YOUNTS. A personal comment to your early trip: I would like to inform you that China will surpass Japan as the second largest cellular market in the world this year. We expect that there will be approximately 75 million users in China by the end of the year 2000, and that continues to grow, to push the U.S. as one of the world's leading cellular marketplaces. Another factor, in the year 2002, cellular will outstrip wire line as the primary use for telephone service.

The other issue came up this morning about the Internet. We are starting to see many companies put out wireless Web access devices into China, and that is starting to occur this year, and that will become one of the primary factors in the Web access marketplace. So we think that is going to help significantly.

In closing, just to say, as Frank said, that PNTR is extremely important and whatever you Mr. Chairman can do to push that both in the Senate and the House, we would sure appreciate it.

Senator HAGEL. Well, again, this committee is grateful for your contributions. We appreciate it very much.

We will leave the record open for a couple of days. Secretary Eizenstat is going to furnish some additional answers to questions I think some of my colleagues want as well, and if you have any additional comments, we would insert those into the record.

Finally, I appreciate the fact that Motorola has finally associated itself with some successful crack marketers to get into China, and I applaud that. Not all of us have a Frank Carlucci.

Thank you all very much.

[Whereupon, at 12:02 p.m., the hearing was adjourned.]

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