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Institute for International Economics Conference on China and WTO (World Trade Organization) Accession

Max S. Baucus

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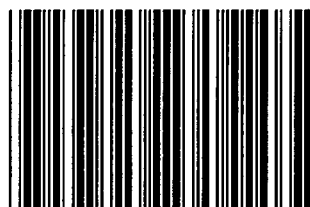
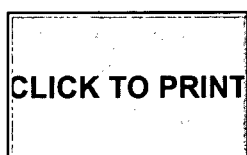
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Senator Max Baucus
Institute for International Economics
Conference on China and WTO Accession
June 29, 1999

Thank you, Fred, for that kind introduction. It's a pleasure to be here today. I am pleased to see that so many people are interested in developments with China although, given the importance of WTO accession to our economic, strategic, and geopolitical interests, I am not surprised. But I do want to thank Fred and the Institute for International Economics for putting this together at a critical juncture in the US-China bilateral relationship..

Yogi Berra once said - "You can observe a lot by watching". Given the expertise in this room, I look forward to listening to your comments after I provide some of my own observations.

In the most recent edition of *Foreign Affairs*, Bates Gill of the Brookings Institution wrote:

It has never been clear to Americans just what is being built with the Chinese and why, or more important, what is impossible to achieve given contrasting national interests. Lacking those understandings, the relationship flounders and falls prey to both exaggerated expectations and gloomy pessimism.

We in the West have been alternating between exaggerated expectations and gloomy pessimism about China for a century and a half, and this continues today. For the first time, however, we can no longer afford anything but the starkest realism in assessing this critically important relationship and in determining our expectations and objectives.

America's long-term, broad national interest in the Asian region has three elements -- security, stability, and economic growth, which includes open markets, a particular priority concern of mine. China, with one-fifth of the world's population and two-fifths of the region's people, the fastest growing economy in Asia, and a military that is modernizing rapidly, at least in Chinese terms, is key.

China's future concerns will focus not only on its own periphery such as the South China Sea, Southeast Asia, India and the Korean Peninsula, but also with many other corners of the world.

As transnational institutions, such as the WTO, the IMF and World Bank, and the United Nations, play an increasingly greater role in the global economy and global security, China will be a very important participant.

Three weeks ago, China abstained in the United Nations Security Council vote to allow the Kosovo peacekeeping operation to proceed, and we were glad to see that. Kosovo is halfway around the world, but, in the sense of Chinese involvement in critical global decisions, it might as well be next door.

We must keep in mind that, unlike the Soviet Union during the Cold War, China will not challenge the United States for either global military leadership or global economic leadership at any conceivable future date. But the challenges are still immense.

Trade, international finance, human rights, nuclear proliferation, espionage, the environment, regional security in Asia, Taiwan, stability on the Korean Peninsula – these are just a few of the important national interests we have with China. We must examine every aspect of the U.S.-China relationship in an objective way, determine what is best for us as a nation, and act accordingly. We need to analyze each in its own terms and determine a strategy and a course of action.

Let me turn to trade and the WTO. I don't need to burden this group with an explanation of where we are today. Undersecretary of State Thomas Pickering's trip to China two weeks ago to explain the tragic and accidental bombing of the Chinese embassy in Belgrade was designed to help mark the end of a series of events that have strained U.S.-China relations. The ideal outcome would have been Chinese acceptance of this explanation and an immediate return to the table to finish up the WTO negotiations with the United States. An ideal outcome, but it was naive to think that it would happen so fast.

The administration's rejection of the WTO agreement negotiated during Premier Zhu Rongji's visit to the United States in April provided a convenient pretext for the forces of entrenchment and reaction in China to attempt to discredit Zhu, President Jiang Zemin, and their economic reform policies. The accidental bombing in Belgrade gave those reactionary and protectionist forces an enormous additional stimulus to build on a base of suspicion of American intentions already held by many.

It is clear that turmoil continues within China's leadership. Zhu's authority and his ability to continue China's economic reform is under serious challenge. We are all relegated to reading the tea leaves, but I remain an optimist. I believe that Zhu will demonstrate that the reform forces are dominant. I believe that China will return to the negotiating table, that we will complete a commercially acceptable agreement in time for China to join the WTO in Seattle in November, and that the Congress will vote to amend Jackson/Vanik, giving China permanent Normal Trade Relations status, permanent NTR. I believe that a majority of Senators and House members will recognize the benefits we get from a solid commercial agreement with China and from Chinese membership in the WTO and that they will separate trade interests from security interests as they assess U.S./China relations.

Completing these agreements and getting China into the WTO is not a concession and not a favor to China. It is a clear gain for the United States.

First, it opens a significant market for our farmers, workers, manufacturers, and service industries -- many of whom use words like "stunning" and "unprecedented" to describe the expected impact of the agreements reached in April. Some business and farming representatives have explained

to me that they expected to get less than half of what they wished for, yet got 95 percent in the agreement outlined in USTR's 17 page summary released in April.

The second benefit to us of China in the WTO is that WTO membership will incorporate China into the international trading system and its rule of law. Obviously, this will not happen overnight. There are many transition periods built into the agreements we have been negotiating. But China will be accountable to the WTO membership for its trade policy and its trade practices. The Trade Policy Review Mechanism at the WTO, which periodically reviews a country's entire trade regime, may be ineffective in generating change and action in Japan or within the European Union. But it should provide an unprecedented degree of transparency on China's trade rules and trade practices. There may be serious problems with much of the WTO's dispute settlement process, but it will force China to answer questions and explain its trade policies and practices. Once China joins the WTO, a process of accountability to the world begins that China has never experienced before.

The third benefit of WTO membership is that it will help anchor and sustain the economic reform process under way in China under Zhu Rongji. It is very much in our interest to support all efforts to move China away from the state-run economic structure it now has toward a market-driven economy. It will take many years to dismantle China's state-run enterprises. But Zhu has begun to move down this road, and WTO membership will help the process.

Let me turn to the espionage issue, the Cox Report, and what actions we should take as a result. China's successful espionage is a wake-up call for us to ensure that there will be no security breaches in the future. The President's Foreign Intelligence Advisory Board, under former Senator Warren Rudman, issued its own report last week with recommendations about fixing the serious security problems at the Department of Energy and inside our national laboratories. Although organizational changes alone will not solve the problems, they are necessary.

It would be naive to expect that China is not aiming enormous intelligence assets at the United States, or that they will stop doing this anytime in the future. Preventing the success of those activities is the responsibility of those of us in the federal government. But Chinese intelligence activities must not be used as a justification to shut off relations with China, or to ratchet down those relations, or to damage our national economy by abandoning efforts that will lead to a more liberalized and open Chinese market. We must not punish ourselves for our own mistakes. I was pleased that the joint hearing last week of four Senate committees to examine the Rudman report focused on how to fix this security problem, not on punishing China.

How we in America and how the leadership in China manage this relationship over the next few years will set the stage for regional and global politics, security and economics well into the first quarter of the next century.

We must make a profound choice in the coming weeks and months. Do we bring China into the orbit of the global trading community with its rule of law, and directly pursue issues vital to us, such as nuclear proliferation, human rights, North Korea, and Asian security? Or do we isolate

and contain China, turning Asia into a 21st century version of the Cold War? It is a truism in international relations that rising powers have proven to be the most dangerous -- Germany at the end of the 1800s and the Soviet Union in the 1940s. But this is not 1900 or 1945. As the world has become smaller for us because of revolutions in information, transportation, and production, so for China has the world become closer.

China is not our enemy; and China is not our friend. The issue for us is not how to control China, how to isolate China, or how to contain China. It is how to engage China, and this means engagement with no illusions and engagement with a purpose. How do we steer China's energies into productive, peaceful and stable relationships within the region and globally? For just as we isolate China at our peril, we engage them to our advantage. And incorporation of China into the WTO this year is an imperative.

Thank you very much. I would be happy to respond to questions, or, as I mentioned earlier, to follow Yogi Berra's dictate and just listen to you.