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"China, the WTO (World Trade Organization),  
and the Future of U.S.-China Relations", Brookings  
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Max S. Baucus

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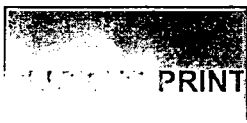
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Senator Max Baucus  
"China, the WTO, and the Future of US/China Relations"  
The Brookings Institution  
Washington, D.C.  
March 27, 2000

I want to thank Bates Gill for arranging this opportunity for me to talk about US/China relations. Bates is one of this nation's premier China scholars, and I look forward to working together with him for many years to come.

With Taiwan's Presidential election now behind us, this is a good time to think about the complex triangular relationship among Washington, Beijing, and Taipei. The WTO, PNTR, Taiwan security, democracy in Taiwan, cross-Strait dialogue, generational change in China's leadership. All of these are inter-related. As I think about the challenges facing Taiwan President-elect Chen Shui-bian, they are enormous: a plurality victory by the Democratic Progressive Party which itself has serious internal ideological and policy divisions; a Kuomintang that lost the Presidency but still controls the Legislative Yuan as well as many local political positions and a huge business infrastructure; an outgoing President Lee Teng-hui with an uncertain future. And those are only the internal challenges.

Professor Li Cheng of Hamilton College has written about generational change in China's leadership. He concludes that China's fourth generation leadership, those who are in their late 40s and 50s today, are

- less dogmatic ideologically and more open-minded than their predecessors
- less confrontational and more compromising because of what they witnessed in the Cultural Revolution
- more technocratic in approach because of their educational background which is often in law and the economy
- more likely to emphasize the importance of economic might and the role of science and technology in the information age.

Li says that they are angry about the moral superiority and arrogance of the West and suspicious about whether a Western economic and political system could work in China. He concludes that we are in for greater changes as a more diversified, energetic, aggressive, and less dogmatic generation comes into power in China.

A big question, of course, is how this new generation of Chinese leaders will deal with Taiwan and, in particular, a Taiwan that has just seen the party in power change for the first time.

That said, let me talk about the situation across the Taiwan Strait. On February 21, Beijing issued a very troubling White Paper that talked time and the possible use of force for reunification. This was a very clear signal that action, combined with out-

is inappropriate. We should consider PNTR on its own merits, as a trade measure, and evaluate the benefits to our economy.

When I was in college, I spent a year hitch-hiking around the world. That experience helped me find a direction in my career and my life. One lesson I learned was that human and economic interchange is one of the best ways to influence a nation's behavior. Nothing I have seen since has changed that view.

After half a century, the Kuomintang will give up executive power following Taiwan's open and honest democratic election. This is being done by a political party whose history is steeped in decades of severe authoritarianism. Korea now has its second democratically elected President, also after decades of strict authoritarian regimes.

The information revolution, along with economic interchange, can have a profound impact on a society and its people. Tom Friedman's "Golden Arches Theory of Conflict Prevention" states that when a country reaches the level of economic development where it has a middle class big enough to support a McDonald's network, people don't want to fight wars anymore. His point is that economic growth and the development of a middle class lead to a completely new set of demands on a government and on a society -- for information, for accountability, for responsibility, for participation, for freedom. There is no reason to think that the Chinese people, despite millennia of imperial rule followed by half a century under communism, will be any different in this regard than Russians, or Georgians, or Koreans.

There are already some signs of this in China. Of course, those interested in maintaining the status quo, in protecting State-Owned Enterprises, in pursuing a stronger military, in keeping their perquisites, are still powerful. But, talk to an Internet entrepreneur in Beijing. Talk to the owner of a new restaurant. Talk to someone who has a small company. A major motivation is to raise income and improve the quality of life. But it is also about greater choice, greater freedom of action and thought, and greater control over their own future.

In a speech a few months ago, Bates Gill said that you can't be disillusioned about China if you don't have illusions in the first place. I have watched China closely for a long time and have concluded that engagement with no illusions and engagement with a purpose should be a watchword for US/China relations.

I have been active on the issue of most-favored nation status, MFN, now NTR or Normal Trade Relations, for China, for over a decade. I have led the fight in Congress to extend NTR status every year without conditions. Recall that there were negotiations on Chinese accession to the GATT in the late 1980s. They came to a full stop with the June, 1989, massacre in Tiananmen square. Some in Congress and in the human rights community then concluded that the annual waiver process for MFN, which was

China PNTR status, that is, if we don't treat them the same as we treat all other WTO members, we will not be able to benefit from most of China's concessions. That means that our Japanese and European competitors would have full access to China's markets while we would be left outside.

As I speak to audiences in Washington and around the country, I have been surprised by how few people understand this. Many believe that the issue is whether the United States will allow China to join the WTO. To repeat, China will, most assuredly, become a WTO member this year. The issue is whether American farmers, workers, and businesses will gain. If you listen to most opponents of PNTR, they are really arguing that China should not be allowed to join the WTO. Specifically, what are they saying?

One, PNTR is a gift to China.

The fact is that China commits to open its market in unprecedented ways, while the United States gives up nothing – no change in our trade laws, no change in our trade regulations, no increase in China's market access to the United States.

Two, PNTR will reward China's oppressive behavior.

Martin Lee, Chairman of Hong Kong's Democratic Party, who has fought relentlessly for freedom and democracy in Hong Kong, believes that China's entry into the WTO would strengthen those in China who want to embrace the rule of law. Opening China further to international trade and foreign influence will reinforce positive trends in China that encourage the country to look outward. Information technology liberalization means greater access to the Internet, access to cellular phones, access to Palm Pilots. Remember that dissidents in the former Soviet Union wanted the West to send them fax machines, not machine guns.

Three, PNTR means we lose our leverage over China's behavior on human rights and Taiwan.

We are not giving up leverage by abandoning the yearly NTR review. If we look back over the last decade of US-China relations, it is clear that we have never been able to use the MFN or NTR debate as leverage. Why would we think that it would be effective in the future when it has failed for a decade to stimulate change in China? Voting against PNTR won't free a single prisoner. Voting against PNTR won't reduce Chinese threats against Taiwan. But voting against PNTR will empower the most rigid anti-democratic elements in the Chinese government. Voting against PNTR will leave the Chinese people with less contact with the most democratic elements in the West. And voting against PNTR is a vote against the reform elements in China's leadership today.

Four, China's record on human rights got worse in 1999, so they don't deserve PNTR..

It is one thing to negotiate a great trade agreement. But even more effort is needed after it is signed to make sure that it works and that there are concrete commercial results. When our government takes this issue seriously, as it did in the case of the intellectual property rights agreement with China, and puts the right resources into ensuring compliance, it is successful.

There is a lot of concern in the Congress and in the business community about Chinese compliance with its trade agreements, and I share that worry. That is why I recently introduced the China WTO Compliance Act which will force future Administrations, whether Democrat or Republican, to monitor Chinese commitments and take strong action to ensure compliance. It also provides for institution building in China that will help create the infrastructure necessary to comply with WTO commitments. I hope that this bill will be enacted as part of the PNTR approval process.

I am optimistic that PNTR will pass this year. We have the votes in the Senate. Given the strong commitment of President Clinton, Vice President Gore's statement two weeks ago that he will actively promote PNTR, the increasing activity by the business and agriculture communities, and the fact that this is, simply, a very, very good deal, I believe the House will also approve it. The direct trade benefits are obvious. The costs of rejecting PNTR are enormous. We need to consider PNTR on its own merits, examine the impact on the American economy, and then approve it, without letting political issues determine the outcome.