

U.S.-China Security Review Commission

June 14, 2001

Remarks of Robert A. Kapp

President, United States-China Business Council

Ambassador Lilley, Commissioner Mulloy, members of the Commission:

Thank you for inviting me to appear today before the first full hearing of the U.S.-China Security Review Commission. I look forward to a productive discussion with you.

I. Introduction and Preliminaries

I am Robert Kapp, president of the US-China Business Council. Founded in 1973 at the instance of key Nixon Administration officials at the beginning of modern contact between the United States and the People's Republic of China, the Council is the principal organization of US companies engaged in trade and investment with China. The Council (www.uschina.org) currently serves approximately 230 leading companies, of all sizes, from headquarters in Washington and field offices in Beijing and Shanghai.

The Council is an independent, nonprofit, nonpartisan business association incorporated under Section 501(c)(6) of the Internal Revenue Code. Its funds come primarily from corporate memberships. The Council receives no financial support from any government and no money from private foundations or individual donors. Contrary to recent published reports, the Council provides no political support, financial or otherwise, to any incumbents or candidates for public office, and no one associated with the leadership of the Council, whether salaried staff or

members of the Council's Board of Directors, provides support to any political figures in his or her Council capacity.

The Council's education and research arm, The China Business Forum (501/c/3) is the home base for The US-China Legal Cooperation Fund. The Fund, created on the 25th anniversary of the US-China Business Council in 1998 with charitable donations from a number of Council member companies, awards grants for joint US-China programs in the field of law, in keeping with the 1997 and 1998 agreements of Presidents Clinton and Jiang Zemin to develop bilateral legal affairs cooperation. Fund grants have supported worthy projects including legal services for the indigent, research on the compatibility of Chinese labor law with international standards, dictionary translation projects, and improvement of Chinese administrative legal process, and improvement of Chinese compliance with WTO requirements, to name a few. The Fund represents a corporate commitment to the long-term development of a more stable and productive US-China relationship in the much-discussed area of "Rule of Law" at a time when the United States Congress has repeatedly refused to make available public funds for such positive US-China cooperation.

II. The US-China Security Review Commission: The Work Ahead

The establishment of this Commission by Congress last year, just as the Congress completed its historic and spirited debate on the provision of full WTO-member treatment to China upon China's accession to WTO membership, is a reminder of the importance that members of Congress have from time to time attached to the progress of US relations with China.

I wish the Commission well in its pursuit of a balanced, broadly informed understanding of the issues dealt with in its Congressional mandate.

Before turning to the questions suggested to me in Commissioner Mulloy's invitation to appear at this hearing, I would like respectfully to offer the Commission a few reflections.

The work of this Commission will not take place on a blank slate. Everything about this endeavor is rooted in larger contexts – historical, technological, economic, and political. From each of these contextual perspectives, a great body of research, writing, and practice has emerged over the years. I hope that Commissioners who have not spent much time in the past in these broader avenues of inquiry will do so now. In particular, I hope that Commissioners will want to establish a broad grasp on the wider issues of which the Commission's work is a part, clearly establish the Commission's starting assumptions and the boundaries of its concerns, and then proceed with a fairly strict sense of where it is headed. That way, the work of the Commission could contribute meaningfully to a larger and longer policy discourse.

III. Defining the Givens

Permit me respectfully to discuss a few of the starting points that I hope the Commission will address in the early days of its work, so that its continuing efforts and its later recommendations are based in meaningful contexts:

A. How does the Commission define "U.S. national security"? Does the term solely denote military strength in relation to threats or enemies? Does it include concepts of economic strength? Does it take into account multilateral as well as bilateral perspectives? The meaning of "national security" is less self-evident than it is sometimes said to be. The Commission should define its terms.

B. I would hope that the Commission would consider whether carefully executed policies of dispute management, tension reduction, and positive cooperation with China

are feasible and would contribute to the US national security. That is to say, does the Commission believe that "engagement" with China offers the possibility of greater security for the United States or not.

C. As it views US-China relations from the standpoint of its chosen definition of national security, will it view US-China relations only bilaterally, or in multilateral context? This Commission is a "US-China" Commission. Some apparently bilateral US-China issues, including security issues, may actually be narrowly defined cases of more transcendent problems relevant to many nations: export controls, trade policies, for example. Will the Commission concentrate entirely on China? How will the Commission blend its mandated bilateral focus with the actualities of globalized economic, strategic, environmental, and technological life?

D. What does the Commission see when it looks at China?

Zbigniew Brzezinski writes, in "Living with China," (The National Interest, Spring 2000):

It follows that the United States, in defining its longer term China policy and in responding to the more immediate policy dilemmas, must have a clearly formulated view of what China is, and is not. There is, unfortunately, enormous confusion in American on that very subject. Allegedly informed writings regarding China often tend to be quite muddled, occasionally even verging toward the hysterical extremes. As a result, the image of a malignant China as the inevitably anti-American great power of the 2020s competes in the American public discourse with glimpses of a benign China gently transformed by U.S. investors into an immense Hong Kong....

Having digested much of the available literature on Chinese political, economic and military prospects, and having dealt with the Chinese for almost a quarter of a century, I believe that the point of departure toward an answer has to be the recognition of an obvious by fundamental reality: China is too big to be ignored, too old to be slighted, too weak to be appeased, and too ambitious to be taken for granted....

In any case, whatever its political prospects, China will not be emerging as a global power in the foreseeable future. If that term is to have any real meaning, it must imply cutting-edge superiority of a truly global military capability, significant international financial and economic influence, a clear-cut technological lead, and an appealing social lifestyle -- all of which must combine to create worldwide political clout. Even in the most unlikely circumstance of continued rapid economic growth, China will not be top-ranked in any of these domains for many decades to come....

One should note here that some of the current scare-mongering regarding the alleged inevitability of China's emergence as a dominant world power is reminiscent of earlier hysteria regarding Japan's supposedly predestined ascendancy to superpower status....

Today, with the Soviet Union gone, China is neither America's adversary nor its strategic partner. It could become an antagonist, however, if either China so chooses or America so prompts.

Thus Brzezinski: what is the Commission's view? I urge the Commission to state clearly, from the start, its assumptions as to the nature of the China facing the United States at the dawn of the 21st century and later on -- China's political dynamics, its economic trajectory, the characteristics of its domestic and international conduct, its self-perception in world affairs, its strategic intentions, and so on. These crucial questions are not interpreted in one single way by American specialists, and I hope the Commission will want to inform itself deeply as to the variety of views informing these issues.

Bald assertions, for example, that China is somehow "hard wired" for a quest for regional or global domination, should not be uncritically accepted.

Interpretive suggestions that all economic activity, or for that matter all Chinese in contact with other countries, are somehow locked into a gigantic web of political control deftly manipulated by the Standing Committee of the Politburo, should be scrutinized with skepticism.

The implications for China's international behavior of its still-accelerating twenty-year movement toward the market economy and toward international economic integration need to be explored, and the Commission's views of them defined, before the Commission can effectively take on the specific targets placed upon its agenda by the Congress.

E. It would be very helpful for the Commission to determine its own views at the outset as to what would constitute Chinese domestic and international behavior fully

compatible with its notions of US national security. Expressions of fear over China's rising power or future prowess are everywhere; a thousand voices lament what China is and does, or say what China should not be and should not do. There are far fewer voices able to describe in detail what China should be and should do, from the standpoint of the United States. Prescriptions for US policies aimed at eliminating threats or "changing China" must define both what changes the US ought to pursue, and the feasibility and the costs of pursuing those changes.

In this connection, the familiar usage "a stable and prosperous China" might not suffice, even if all on the Commission could agree that "prosperous and stable" is better for US security than "poor and unstable." Is continued Chinese economic growth compatible with or conducive to US security? How much economic growth is too much (or, for that matter, not enough) for US comfort?

Does the enhancement of the Chinese central government's ability to enforce its writ effectively across China's landmass and throughout China's million villages enhance US security, or would the Commission hold that US security would be better served by the dissolution of central authority?

Is PRC diplomacy aimed at developing cordial relations with the numerous states on its borders inimical to U.S. national security? Does PRC participation as a full member of international regimes like the UN or the WTO strengthen or threaten US national security? Does the PRC's attractiveness as a site for foreign direct investment represent a threat to US national security? Does any and every modernization of Chinese military capabilities threaten US security? Does U.S. security require changes in China's force

structure? On all of these questions, the Commission needs to ask itself: what would it want to see China be and do?

These are just a few of the fundamental definitional issues that, in my opinion, the Commission needs soberly to take up. As Commissioners are aware, none of those subjects is without widely divergent interpretation in American discussions, both among specialists and more generally. I have appended a short list of recommended readings and copies of a very few written pieces, primarily by way of illustrative examples of what can be found to assist Commissioners in this analysis.

IV. While the members of this Commission probably will not want to plunge into the sectarian debates of international relations theorists over the intellectual schools that underlie various approaches to strategic thinking ("classical realism, which stresses the struggle for power among states; neorealism, which emphasizes the search for security under conditions of anarchy; neoliberal institutionalism, which explores the evolution and influence of international cooperative regimes," to quote Andrew J. Nathan and Robert Ross in The Great Wall and The Empty Fortress: China's Search for Security, it is evident to the lay observer that a doctrinal debate informs much of the discussion of the future of US foreign policy as a whole, of which China policy is, in some ways, only an example.

I hope that the Commission will want to examine the range of theoretical approaches that underlie different contemporary policy positions on China. Even if the Commission ultimately chooses to make its way through its mandate on the basis of nothing more than a declaration of faith, it would be well for the Commission to come to grips with the

underlying debate over what the US role in the post-Cold War world is or should be.

Some of the readings that I am appending or recommending may be of value in this regard.

V. Inevitably, the Commission will take up some relatively familiar topics.

Take export controls. This subject has been under intense expert discussion from well-defined perspectives for decades. Certain members of this Commission are among the most prolific and passionate discussants of US export control policy, not only with regard to China but more generally.

Those of us who have not spent decades in this complex field, and who have not had the clearances and exposure to defense-related information that some of the members of this panel have had during their service in US government agencies close to the center of this subject, can only observe from the sidelines. We observe:

- A prolonged debate over the balance between US commercial interests and US interests in controlling the flow of certain technologies to certain powers deemed potentially unfriendly to the US;
- An almost equally durable conflict over administrative prerogatives in export control policy execution among US government agencies and their respective supporters in the Congress and the policy community, a debate that is back in the hands of the Congress this summer;

- Timeless arguments about how to define acceptable and unacceptable levels of technology exports, and how to distinguish acceptable foreign recipients of technology exports from unacceptable ones;
- Hoary discussions of the utility and wisdom of preventing US exports of technologies that are available from other international suppliers – the so-called “foreign availability” question;
- Plentiful commentaries on the implications of the collapse of the Soviet Union for the future of US export control policy.
- Voluminous discussion about the implications of the internet, electronic miniaturization, and other technological innovations for the preservation of American defense technology secrets.

I need not elaborate further, on the export control question or other major issues facing this Commission that have their own long histories. Inasmuch as the Commission will be dealing with topics that have been argued and explored extensively by others, I would hope that in the Commission's early months a broad and open-minded “state of the field” effort would be undertaken, both to help the Commission move beyond what has been said and done by others and also to help ground the Commission's work in the wisdom of those who have gone before.

VI. I urge the Commission to think carefully about the domestic social implications of its concerns. Developments within the United States in the past few years, as related to the condition of US-China relations, make this a matter of legal and ethical priority.

Commissioner Reinsch, shortly before leaving public office, commented in a particularly telling fashion on one such implication. As I recall the report of his remarks, his thinking was along these lines: If the acquisition in the United States, by Chinese citizens, of certain types of technical information represents a "deemed export," even if the information is acquired in open intellectual settings such as professional meetings, academic conferences, university seminars or classes, etc., may the time come when United States policy or law might bar PRC citizens from those otherwise open scholarly activities, even as citizens of other foreign nations are welcomed to them? This and related questions ought to be grappled with forthrightly by this Commission. Will it be the Commission's view that requirements of US national security demand that our government take action to deny solely to "Chinese nationals" (if that term can be precisely defined) professional and intellectual opportunities denied to no others? What about American citizens born in China? Born of Chinese-born parents? What about people of Chinese ethnicity and culture in the United States with Taiwan or Hong Kong passports? This issue has loomed just behind the screen in the US debate over the threat from China in recent years, and the Commission should not avert its eyes. The potential for social injustice is clear.

VII. Finally, I am sure the Commission will want to eschew exercises in wishful thinking or in symbolism.

- I would consider it wishful thinking to propose that the US undertake to return China to the position of global isolation and insignificance, except as an object of others' ambitions, that it occupied throughout almost the entire U.S. national experience, from 1790 until the 1980s. The world may not know how to adjust to the presence of an economically vigorous and militarily improving China, but hoping to bring about China's return to the tea-pouring role at the councils of nations that Emerson once assigned to it is

at best a chimera, and at worst a prescription for something far darker. That is my view; the Commission may agree or disagree.

- I would also suggest that "sending China a message" from Washington is an exercise in symbolism that normally proves irrelevant or counterproductive. "Sending messages to China" has a long history in Washington; the messages, by and large, go unheard, misunderstood, or unrespected. I would suggest that the Commission scrutinize very carefully any proposed policy recommendations that are built around "sending China a message;" the Commission may or may not concur.

VIII. I now turn to the specific points that the Commission's invitation asked me to discuss:

- **"Whether our current trade and investment policies toward China serve the national security interests of the United States, and why or why not?"**

The answer is, by and large, Yes, but of course the question is very stark and simplistic answers are of limited utility.

We believe that China's decision in 1978 to move away from Stalinist-Maoist models of development in the direction of the market economy and broad engagement with the world community is preferable, for the United States, to the orientation that obtained before 1978. We therefore believe that such basic building blocks of modern US-China relations as the establishment of diplomatic relations (1979) the establishment of trade relations based on reciprocal extension of NTR (MFN), and the more recent completion of the US-China Bilateral Agreement on China's WTO Accession (1999) as well as Congressional approval of Permanent Normal Trade Relations with China upon China's accession to the WTO are in the US national interest. I would respectfully suggest that the broadest possible engagement of the US and China is likely to prove more beneficial to the overall interests of the United

States than would the attempt to design an exquisitely calibrated mixture of friendly and adversarial policies, defined through the political process, to meet an infinitely varied mix of exigencies, scenarios, reactions, and counterreactions. The United States does best, domestically and worldwide, when it pursue policies rooted in the assumptions of the market economy and the value of international communication and cooperation.

- **Whether investment of American companies in China is principally designed to produce goods for sale in China or for sale in the US and other markets.**

American companies invest in China for a wide variety of reasons. The growth of the Chinese economy, rise of Chinese incomes, concomitant expansion of Chinese consumer and industrial markets, and China's massive commitment to infrastructure development make China an important present and future market. As companies do in markets around the world, US companies invest in China in order to succeed best in China's markets. Examples can be found in consumer products, telecommunications and information technologies, petrochemicals, agricultural and food processing, industrial inputs, autos, and other fields.

Sometimes, production in-country is tailored to specific country needs, especially in larger nations where the actual or potential market is large. Part of success in any market lies in selling products which that market wishes to acquire. Even the best pork in the world has limited prospects in Muslim countries; left-hand drive autos do not sell in Britain or Japan.

The earlier incentive to invest in China so as to gain access, through Chinese joint venture partners, to key resources allocated by central government economic plans has receded as the Chinese economy has become far more marketized and as the resources available within Chinese society have grown to meet the needs of global business.

Some foreign companies, including American ones, have committed to exporting a portion of the products of their invested enterprises as a condition for approval of their applications to invest in China, or found it necessary to export in order to meet foreign exchange balancing requirements imposed by Chinese authorities. This has been the object of intense criticism, particularly from American groups deeply concerned about "economic disarmament" or the transfer to China of production skills that enhance China's global economic competitiveness. At the insistence of the United States, China in its bilateral WTO accession agreement with the United States has committed to eliminating both the export requirement and the foreign exchange balancing requirements as conditions of investment.

Some companies produce subassemblies in China that return to the United States as inputs into final products produced in the US.

Some companies use production facilities in China as integrated elements in global production and marketing strategies, exporting a portion of their China production, for example, to Southeast Asian markets.

A high percentage of the textile, apparel, and footwear imports that enter the United States from China in large quantities are produced in plants built with Taiwanese, Korean, Japanese or Hong Kong investment.

- **Reasons for the Chinese trade surplus with the US; observations of any apparent differences between Sino-American trade and investment relations and those of China and other major trading partners; explanations for such differences.**

The Commission should familiarize itself with the work of Stanford University Economist Lawrence J. Lau, who has studied the US-China trade deficit in great detail. Lau points out that, when appropriate adjustments are made for inconsistencies in the methods of measuring the merchandise trade deficit (US exports are counted on an FAS basis, imports on a CIF basis; US goods passing through Hong Kong on the way to China are counted as US exports to Hong Kong, while Chinese goods passing through Hong Kong on the way to the US are counted as Chinese, not Hong Kong, exports to the US, etc.), the actual merchandise trade deficit, while certainly large and bigger than Chinese figures would suggest, is more accurately shown to be about 30% lower than US Commerce Department numbers disclose.

Economist Gary Hufbauer of the Institute of International Economics (Policy Briefing, April 2000) offers the following (excerpted) observations on the US-China trade deficit:

China's large bilateral trade surplus with the United States (correctly measured at \$43 billion, not \$68 billion) in 1999 represents neither a global pattern for China nor a net loss of production by the US economy. Unlike Japan, China does not run large and chronic global surpluses. China's bilateral surplus reflects China's ability to compete against and win business with the United States from third countries that had been exporting to the US market. China's bilateral surplus represents a shift of suppliers rather than an overall increase in US dependence on imports....A larger US trade deficit in manufactured goods is historically associated with *higher* manufacturing output, not the reverse....Manufacturing output and the trade deficit both rise when the US economy is doing well, and both fall when the economy is doing poorly....Manufactures output increases virtually dollar for dollar with manufactures exports /in data since 1990/.../C/ontrary to...mercantilist thinking...US manufactures output is virtually

unaffected by overall changes in manufactures imports. Why? Because many manufactured imports serve as inputs to US manufactured goods....

Hufbauer continues:

When the US economy is exceptionally strong...the United States will have a larger trade deficit with the world. If the United States did not have a \$43 billion trade deficit with China, it would have a larger trade deficit with other countries, such as Mexico or Korea. Even if, contrary to evidence, the overall US manufactures trade deficit was associated with lower manufactured output, the bilateral China deficit would have no independent significance.

From all of this, I would suggest the following as the key factors in the emergence and increase of the US-China trade imbalance:

- The far greater size of the US economy and market, including per capita income differences. (It is also notable that, given the sizeable imbalance that has existed for some years, the rate of growth of US exports to China must be a substantial multiple of the rate of growth of Chinese exports to the US before the absolute merchandise trade imbalance between the two countries can fall.)
- The exceptionally robust rate of US economic growth throughout most of the 1990s, which occasioned a massive growth in US imports from many countries;
- China's success in displacing other developing country (and Asian) suppliers of imports to the US, and the repositioning of production facilities owned by Taiwanese, Hong Kong, Korean, Japanese, and other investors from those Asian production bases to the PRC.

- A range of Chinese trade and investment obstacles, from tariffs and non-tariff barriers to bureaucratic inefficiencies, which have long had a dragging effect on international exports to China. These barriers have been the object of American government and business concern for many years. Most were objects of successful US negotiating efforts in the 1999 WTO Accession Agreement, and will be progressively reduced or eliminated following China's WTO accession.

As to the different size, content, and progression over time of China's bilateral trade balances with other major trading partners, I am not expert. Suffice it to say that in the Japanese case, factors of geographic proximity, prolonged stagnation in the Japanese economy, and relatively low levels of Japanese investment in China help to create a massive two-way trade relationship but a somewhat different profile. European Union trade with China has seen the sharp increase in the EU merchandise trade deficit with China in recent years, but again, one suspects that sluggish growth in the EU economies, the relatively low levels of Chinese trade with many EU members other than Germany, France, and Britain, and in some cases the relatively high barriers to Chinese imports erected by certain EU economies contribute to a unique Sino-European trade profile. Crude monocausal analyses of the differences between US-China and Sino-European or Sino-Japanese trading patterns would be misleading.

- Whether differences are apparent in the pattern of merchandise trade between the US and China, on the one hand, and China and other major trading partners on the other, and whether such differences have implications for US national security.

US national security lies, in part, in successful competition by American companies in major international markets. To the extent that US investment in China, directed toward the growing Chinese market, is replaced by European or Japanese investment; to the extent that the US might

fail to avail itself of market-opening opportunities made available to Europe and Japan as China enters the WTO; to the extent that US providers of transportation equipment (including but not limited to aircraft and automobiles) telecommunications equipment, information technology products, industrial inputs, agricultural commodities, agricultural and other chemicals, financial services, distribution services, after-sales services for manufactured products, audio-visual services and other products of US economic strength cede their opportunities in China to their European and Japanese competitors, the national security implications for the United States are unlikely to be positive. That is particularly true if Japanese and European corporations establish themselves as dependable, preferred, long-term suppliers to Chinese economic sectors whose development relies on twenty- or fifty-year supplier-customer relationships, such as the civil aviation sector, the energy sector, or the telecommunications sector.

- **Observations on the status of China's WTO negotiations and the reasons for the delay in China's WTO entry.**

Sensitive engagements with China, whether in trade, political affairs, or military affairs, are arduous and labor intensive, sometimes excruciating. They require immense concentration and stamina on the part of skilled interlocutors from both sides who know one another well and operate in a stable environment characterized by policy continuity.

That, in turn, requires steadfastness at the political leadership level in both China and its negotiating partner nations. In a perfect world, the pursuit of complex trade agreements would be fully insulated from the storms of diplomacy or domestic politics, but this is not a perfect world.

We have learned over many years that there is no such thing as the moment when all the "political stars" are in perfect alignment for the achievement of US-China agreements,

commercial or otherwise. The US is in nearly perpetual election mode. China is frequently adjusting to new leaders or in the throes of preparation for the anointing of new leaders. The US is still going through the arrival of a new Administration and Congress; the Chinese are now said to be laying the groundwork for their next Party Congress and a wide-ranging change of both government and Party leadership. The exact effects of all this on the completion of China's WTO accession negotiations and the timing of its entry to WTO membership, if any, are not known.

The American business community, supportive of the integration of China into the system of international rules and obligations represented by the WTO, would have preferred to see China in the WTO by now. We view the remaining obstacles to final agreement in Geneva as significant to specific sectors of American business but not insurmountable, if both the Chinese and non-Chinese negotiators receive marching orders that permit them to find appropriate compromises.

The repeated eruptions of tension between the US and China cannot have made the task of negotiators from our two countries any easier. Moreover, there exists in China, a substantial body of opinion that stresses the threats of economic damage to the home country (e.g. to Chinese farmers) if China must throw open its economic doors upon entry in to WTO. Similar expressions of uneasiness have accompanied US preparations for participation in numerous international or multilateral trade agreements.

While we may assume that bilateral tensions such as the 1999 bombing of the Chinese embassy in Belgrade, the spate of exacerbations of existing conflicts over Taiwan and other issues in recent months, and the recent EP-3 incident have clearly lowered the level of accumulated popular good will toward the US in the Chinese reservoir, we have not concluded that China's WTO negotiations with the US have been significantly delayed or altered as a result. We hope that

remaining bilateral talks on WTO between the US and China can be wrapped up quickly when both sides found it appropriate to conclude, and that the remainder of China's negotiations over accession with the WTO Working Party should conclude promptly. In the long run, we are not confident that US-China trade agreements can be successfully consummated, and their benefits maximized, in isolation from an otherwise deteriorating and degrading US-China relationship.

- **China's ability to live up to the trade and investment obligations it is assuming as part of its entry into the WTO.**

It is not an exaggeration to say that China's signing on November 15, 1999 of the US-China Bilateral Agreement on China's WTO Accession is the single most significant milestone in the process of Chinese economic reform since the inauguration of "Reform and Opening" in December 1978. It is also by far the most significant example of positive American influence on the course of China's domestic economic development, and, indirectly, on the evolution of the role of the state in Chinese society.

The Agreement, and the terms of the final accession documents now in the late stages of negotiation, provide for changes in Chinese commercial and legal practice that will have far reaching implications for China, for international business, and the world economy.

Some of these changes can be accomplished immediately by administrative action. China is required by its signed agreements to undertake a wide range of changes in its commercial behavior immediately upon WTO accession, while other changes must be enacted during relatively brief phase-in periods

Much of this will be very difficult. Perfect performance on Day 1 is almost inconceivable. Core WTO practices, such as transparency in law-making and regulation-making or providing of non-discriminatory "national treatment" to goods and services from foreign sources, will be unfamiliar and difficult to popularize at first. Vested interests in the status quo may seek to obstruct or delay the full implementation of WTO requirements. The Chinese central authorities will find very serious challenges as they attempt to educate, persuade, cajole or coerce affected parties at the provincial and local level into acting in a fully WTO-compatible manner. There will surely be numerous disputes between Chinese and foreign parties to commercial transactions on the ground in China. The judicial system remains ramshackle and understaffed with competent trade-knowledgeable personnel.

- **US actions if China fails to live up to its obligations.**

WTO dispute resolution mechanisms will be available to the US, as to all members. The US also retains established instruments for the prosecution of trade disputes under US law. In addition, the US secured certain preferential concessions from China in the November 1999 bilateral agreement, both in the area of extended treatment of China as a non-market economy in dumping cases and in the care of safeguards on import surges in the area of textiles and apparel for a period lasting well beyond the WTO-mandated phaseout of textile quotas under the Multifiber Arrangement.

Having said that, however, there is a broad consensus among American business people that the US, China, and indeed the WTO itself should invest their resources and energies in what might be termed "preventive medicine," i.e., efforts to assist China in the immense process of economic and social change that will best guarantee the fullest Chinese compliance with its WTO obligations in the shortest possible time. The United States should commit public resources to

this crucial effort, as other major trading nations have done. The promotion of compliance from the ground up, through monitoring and prosecution but also through close cooperation, training, early-warning consultations, and other mechanisms, can make a signal contribution to the effective realization of US national interests in China's WTO membership. Purely punitive measures, unaccompanied by efforts to build and maintain US-China cooperation through both government-to-government channels and through private mechanisms, will be far less helpful to the United States.

One might note in passing that bilateral trade disputes, even in large numbers, have become a hallmark of mature international trading relationships between WTO members; the largest number of US bilateral trade disputes is actually with Canada.

IX. Conclusion

Ambassador Lilley, Commissioner Mulloy:

As I conclude this written testimony, let me reaffirm a few points.

1. This Commission's mandate focuses on the relationship of US trade and economic engagement with China on the one hand, and US national security on the other. Since in our country trade and economic activity is conducted by private bodies, mainly corporations, this Commission is legitimately interested in business, and business is legitimately interested in the work of this Commission, including any legislative or executive actions that the Commission proposes in the name of national security. Having appeared at the Commission's invitation today, I trust the Commission would agree with this view. If business is to be scrutinized with a view toward the making of policies on

US-China trade and economic relations in the name of national security, then, I am sure you would agree, business in the broadest sense has standing to participate in the dialogue over those policies, even if the policies are deemed to lie within the realm of "national security policy."

2. Our pluralistic society happily encompasses many social and economic interests, of which business is only one, and business itself is hardly a monolith. Our political system is also an open one. Businesses have the right to observe the activities and recommendations of this Congressionally-established Commission as closely as anyone else, and to express themselves if and when Commission recommendations become legislative proposals or administrative measures.

3. We are blessed with freedom of speech in the United States. Anyone can say, as so many have already done, that expressions of opinion on these issues by the American private sector are tantamount to "appeasement," "kowtowing to Chinese Communists," or betrayal of elemental US security interests, American values, or both. American companies do not enjoy these assaults, and in general have tended to avoid responding in kind. But we have learned in recent years that there are times when trying to stay out of the line of fire provides no refuge. I believe I speak for the broad business community engaged so fully with China in expressing the fervent hope that this Commission will act to prevent its activities and the US government secrets to which its twelve distinguished private citizen members will apparently have unique access from igniting yet another round of finger-pointing, name-calling, or demonization, of anyone, by anyone. Given the record of recent years, this will be a very tough challenge for the Commissioners, and we wish you every success in meeting it.

4. US-PRC relations have never been static and have seldom been smooth. There have been countless irritations. In neither country do we find a massive base of vociferous public support for cooperation and cordiality between the two nations. The outward features of US-China relations are pock-marked with irritations, disagreements, and conflicts. Since Tiananmen and the collapse of the Soviet Union, there have been almost no instances of durable, publicly celebrated cooperation between China and the United States. If anything, public attitudes in each country have hardened toward the other country with the passage of time.

5. That the PRC has changed and grown and in some ways become a stronger economic and military presence in the past decade is beyond doubt. Its integration into world systems, especially in trade, investment and technology, has proceeded apace. China has become a factor to be reckoned with in world affairs in ways different from any other time in modern history. In my view, neither China, with its fixation on past humiliations and victimization at the hands of the 19th-century Western industrial powers, nor the great nations of the world, who until twenty years ago known only a China of collapsed institutions, foreign invasions, revolutionary violence, cult-driven social uprisings, and epochal natural or man-made catastrophes, knows quite how to come to terms with the reality of China's current emergence on the global stage. No one has a monopoly on the truth in all of this.

6. This dilemma is perhaps reflected in today's curious American paradox; the belief on the one hand that China has focused excessively on China and should place a lower priority on dealing with the PRC (that can be called the "No more kowtowing to Beijing" view),

and on the other hand the assertion that the United States must rouse itself and mobilize its resources to deal with China as a fundamental threat to the United States -- strategic, economic, ideological, cultural, "civilizational." (a polite term for the less palatable "racial").

The dialogue over the Chinese security threat lurches and wobbles between the present tense and the conditional tense. Some policy advocates find that what China "is" has been vastly overestimated, and deserves far less American regard, but in dwelling on what China "could become," they argue that the United States is already locked in mortal combat with China.

7. Given the long history of frictions and tensions, it would be easy -- and in fact, it seems to have gotten much easier over the past six months -- to conclude that the US-China relationship is nothing more than the sum of accumulated irritations and conflicts.

Taking that conclusion, and combining it with the worst-case approach to what China "could be," will lead to a set of recommendations for US policy, much of it unilateralist in nature, designed to prepare the people of this nation for a potentially boundless commitment of national treasure to an existential battle against China -- a "clash of civilizations," a battle against evil itself, and not just against the Chinese government of the moment.

8. There are, however, other ways to look at all of this. The extent to which the People's Republic of China has moved in directions that Americans would normally welcome -- toward the market economy, toward a vastly expanded realm of private life, toward adherence to international economic and commercial norms, toward the elaboration of a stable legal framework, away from the Stalinist command economy or the Maoist mobilizational model, and away from the state-sponsored human tragedies of the Mao era, to name just a few -- is often obscured in the effort to sum up pluses and minuses

and to view possibilities of China's future. The extent to which China and the United States have drawn together in positive ways – not only commercially, but in the streams of education and scientific development and tourism and cultural exchanges and others – too often drops from view.

Meanwhile, the internal stresses and fault lines which increasingly manifest themselves in China, whether acknowledged by the Chinese authorities or not, often go undiscussed in the debate over the security implications of China's "rise." Others have pointed out, with only small effect, that the challenges the United States and the world would face if China were to experience widespread social, environmental, or political crisis would themselves be very difficult to manage.

9. Broadly speaking, then, American businesses, who as a group have engaged more intensively with the People's Republic of China, over a longer period, and have learned perhaps more about the ways of achieving one's goals with China than any other sector of American life, would argue that the national interests of the United States are best served by the following:
 - Energetic advancement, at the government to government level, of a positive agenda with China characterized by thorough discussion of areas of broadened cooperation and clear delineation of issues on which the two sides diverge;
 - Maximization of US-China interchanges outside of formal diplomacy, through broader commercial and economic engagement, continued educational and cultural cross-fertilization, and deeper people-to-people contacts in both directions;
 - Establishment by the two governments of mechanisms for the orderly management of acute US-China tensions, especially in their earliest hours;

- Continued integration of China into global and multilateral regimes, whose requirements China would agree to observe;
- Recognition that China is often better addressed multilaterally than unilaterally.

Thank you very much for the opportunity to meet with you today. Our Council is happy to continue a dialogue with the Commission if it chooses to engage with the US business community in a spirit of cooperation and of common interest in the welfare of our nation and the advancement of world peace and understanding.

Suggested Readings

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