

I hope you find this report useful.  
Sincerely,

DIANNE FEINSTEIN,  
*United States Senator.*

SENATOR DIANNE FEINSTEIN: TRIP REPORT—  
THE PEOPLE'S REPUBLIC OF CHINA, HONG  
KONG, TAIWAN, AND NEPAL, NOVEMBER 11-  
26, 1996

Following my visit to China in August 1995, I was encouraged by Ambassador Liu Shuqing, President of the Chinese People's Institute for Foreign Affairs, to organize additional delegations of Senators to travel to China to meet with senior leaders and discuss a range of issues affecting the U.S.-China relationship. The first of these delegations, consisting of Senator Sam Nunn, Senator John Glenn, and myself traveled to China in January 1996.

From November 11-17, 1996, I joined Senator Tom Daschle's delegation traveling to Beijing, Hong Kong, and Taiwan. I subsequently returned to Hong Kong for additional meetings from November 17-20, and then traveled to Nepal from November 20-26. My husband, Mr. Richard C. Blum, and I traveled at personal expense. We were accompanied throughout by a member of my staff, Mr. Daniel Shapiro, whose expenses were underwritten by the Committee on Foreign Relations.

#### CHINA

The issues we discussed with the Chinese leadership included:

The prospects for a more stable and productive U.S.-China relationship in the wake of Secretary of State Christopher's visit to China and the meeting between Presidents Clinton and Jiang in Manila;

The prospects for reduced tensions between Taiwan and China, and the role of Taiwan in the U.S.-China relationship;

The July 1997 reversion of Hong Kong to Chinese sovereignty, and the U.S. interests at stake in a stable transition for Hong Kong;

The lack of progress in resolving a number of outstanding trade disputes between the United States and China;

The human rights situation in China, with emphasis on Tibet and the status of leading dissidents who have been detained or imprisoned;

Regional security issues, including North Korea and South Asia, and the prospects for enhanced military-to-military dialogue and cooperation between the United States and China; and

The recent progress made on U.S. non-proliferation concerns, and the need for continued progress in this area.

On the evening of Thursday, November 14, I met with President Jiang Zemin privately at the Great Hall of the People. We were then joined by Senators Tom Daschle, Byron Dorgan, John Glenn, Dirk Kempthorne, and Patrick Leahy for a one hour meeting, followed by a two and a half hour dinner, also in the Great Hall of the People.

During the rest of our visit, we conducted meetings and working meals with:

Vice Chairman of the Central Military Committee and Minister of National Defense Chi Haotian;

Vice Minister of Foreign Affairs Li Zhaoxing; and

President of the Chinese People's Institute of Foreign Affairs Liu Shuqing.

Because I arrived before the Daschle delegation and remained in Beijing after their departure, I conducted separate meetings with:

Director of the Office of Hong Kong and Macao Affairs of the State Council Lu Ping;

Executive Director of the Association of Relations Across the Taiwan Straits Tang Shubei; and

Executive Vice Premier Zhu Rongji.

In addition to the above meetings, we received briefings from the staff of the United States Embassy in Beijing, including Ambassador James Sasser. We also conducted meetings with representatives of American companies doing business in China to learn about the current climate for U.S. firms in China and how it is affected by developments in the political and trade relationship between the United States and China.

#### *Overview of the U.S.-China Relationship*

Our discussions with Chinese leaders indicated a fair degree of optimism about prospects for an improved environment in the U.S.-China relationship in 1997, tempered by caution with respect to a number of issues of concern to China. The Chinese seem to view the reelection of President Clinton as an opportunity for the U.S.-China relationship to progress without being hampered by the vagaries of American politics to the degree it was in 1996. In November, they were optimistic about Secretary's Christopher's upcoming visit and the Jiang-Clinton meeting in Manila. They are also encouraged by the planned visit of Vice President Gore in early 1997 and the subsequent exchange of Presidential visits. The Chinese see these developments as important steps toward establishing the consistent high-level dialogue that the U.S.-China relationship needs to make progress on issues of common interest and areas of disagreement. In the words of President Jiang, "the sky is clearer now."

At the same time, there are several reasons to believe that progress in the relationship in 1997 will be incremental, rather than dramatic. First, the 15th Communist Party Congress, when Chinese leadership positions will be decided for the next five years is scheduled for September 1997. In the run-up to this Congress, many Chinese leaders will feel pressure to display their nationalist credentials, and this may take the form of challenging the United States, or at least demonstrating minimum flexibility, on any number of issues. Second, the transition of Hong Kong, which takes place on July 1, 1997, will be watched closely by the United States and the world. If it leads to confrontations between the Chinese authorities and Hong Kong democracy activists, or if U.S. interests are put at risk, it could be the source of considerable tension in U.S.-China relations. Finally, a significant number of bilateral issues can continue to plague efforts to normalize U.S.-China relations, including trade disputes, nonproliferation concerns, human rights, and, most importantly, Taiwan.

#### *Taiwan*

Taiwan remains the issue with the greatest potential to seriously disrupt and inflame efforts to stabilize the U.S.-China relationship. The Chinese blame Lee Teng-hui for the absence of cross-strait dialogue. They believe he is actively casting doubt on the one-China policy, and doing so because he believes he has U.S. and Japanese support. They insist that for an atmosphere conducive to dialogue to resume, Lee must take concrete actions: recognize the indivisibility of China's territory and sovereignty; and stop seeking to expand Taiwan's diplomatic presence, especially with countries who have relations with China and at the United Nations. They do not insist that Taiwan recognize the sovereignty of the PRC government.

China is eager to develop the so-called "three links" with Taiwan: direct air travel, shipping, and postal service. They believe Taiwan's reluctance to open them on China's terms (such as not flying a Taiwanese flag in Chinese ports) is a sign that Lee Teng-hui is trying to widen the divisions between the mainland and Taiwan. They also cite Lee's

recent efforts to discourage and restrict Taiwanese investment in China. On the other hand, Hong Kong's reversion to Chinese rule may begin to initiate the three links, as Taiwan will continue to interact with Hong Kong much as it has in the past. There is some sense that if the Hong Kong transition goes smoothly, it could ease the way for eventual reunification between Taiwan and China on the "one country, two systems" model.

It is impossible to overstate the depth of Chinese feelings on Taiwan's role in the U.S.-China relationship. President Jiang told me clearly and directly, that the main thing he needs in order to pursue improved U.S.-China relations is for the Taiwan issue to remain quiet. If it is handled well, everything is possible. If it is not handled well, it could cause a shock to U.S.-China relations. Tang Shubei, Executive Director of the Association for Relations Across the Taiwan Straits, specifically mentioned two potential pitfalls: if Lee Teng-hui is granted a transit visa to the United States on his way to Panama in September, and uses the Panama Canal hand-over ceremony to meet with President Clinton; and if U.S. arms sales to Taiwan are not seen to be declining over time, and avoiding offensive weapons systems, such as landing craft. During my lengthy discussion with Tang Shubei, he gave a comprehensive and precise presentation of China's views on Taiwan, expressing a resolute firmness that I had not seen before.

#### *Trade Issues*

Perhaps in a manifestation of pre-Party Congress stiffening of views, the Chinese seemed particularly stubborn on a number of the trade issues affecting U.S.-China relations. I had a long discussion with Executive Vice Premier on the subject of TCK wheat. China refuses to import virtually any U.S. wheat at the moment, on the grounds that all U.S. wheat is potentially infected with TCK by the rail cars used to transport wheat around the United States. While the Chinese view on TCK is, according to U.S. specialists, not backed up by sound science, they maintain that China will not resume U.S. wheat imports unless Chinese inspectors are allowed to examine the wheat when it is loaded onto ships. This wheat dispute is responsible for a significant decline in U.S. agricultural exports to China.

China's position on its application to join the WTO has changed little in recent months. Beijing continues to believe that it should be admitted to the WTO as a developing country, and that it should try to make the necessary changes to its economy over time. There has been little or no response to the "road-map" provided by USTR to the Chinese in early 1996.

It seems clear to me that if there is not progress on these trade issues, and on the expanding U.S.-China trade imbalance, trade will become a major political problem in the relationship, and could lead us down the road toward a serious confrontation. While the Chinese seem to recognize this potential, they continue to insist that they can do nothing about the trade imbalance because it is caused primarily by foreign-owned ventures that export out of China, and by goods exported via Hong Kong. They say that neither category should be counted against Chinese export totals, resulting in a huge disparity between the trade figures cited by the two sides (the U.S. figure: \$35 billion imbalance; China's figure: \$8.6 billion).

Most importantly, the one area of flexibility I saw was in Zhu Rongji's willingness to set up a joint working group between U.S. and Chinese trade specialists, to come up with a common method of calculating the trade balance, especially after Hong Kong reverts to Chinese sovereignty. This working

group could offer a course of action that would be positive and move both sides toward a resolution of this impasse.

#### *Hong Kong*

China seems to genuinely want to see a smooth transition take place in Hong Kong, and they repeatedly voice their commitment to allowing the "one country, two systems" approach to take hold. They stress their intention to let the government of Hong Kong be the final arbiter of Hong Kong affairs. This standard, freely volunteered by Beijing, seems to be the appropriate way to judge how the transition goes.

The decision to appoint a provisional Legco and the method of appointment of the first chief executive have led to some concern over China's true intentions. Again, the measure by which to judge these events is the degree to which China allows the Hong Kong government to make decisions on such issues as allowing a commemoration of the June 4 incidents in Tiananmen Square, press freedoms, and so on. In addition, it will be important to observe whether China keeps its commitment to move the selection of future Hong Kong governments in the direction of universal elections over the next ten years.

In my meeting with Lu Ping, Director of the Office of Hong Kong and Macao Affairs for the State Council, who is overseeing the transition, I asked specifically if China would allow peaceful dissent, such as commemorations of the June 4 incidents, after July 1, 1997. Mr. Lu, who was made aware of the questions I would be asking prior to the meeting, was unequivocal in his response: such protests would certainly be permitted as long as they are consistent with Hong Kong law. The test will be whether China tries to impose changes on Hong Kong law that would limit freedoms.

U.S. interests in Hong Kong, such as continued ship visits and the operation of the U.S. Consulate General do appear to be on the Chinese radar screen and resolvable through negotiations. (Later Chinese Ambassador to the United State Li Daoyu reported to me that military ship visits for R&R will be permitted to continue.)

#### *Military and Security Issues*

Interestingly, the greatest degree of cooperation appeared to be in the areas of the relationship relating to military cooperation and security issues. For example, while the Chinese are critical of U.S. arms sales to Taiwan as a proliferation matter, they do seem receptive to further dialogue about nuclear proliferation. In recent months, China has committed not to provide equipment to unsafeguarded nuclear facilities, and it has decided against selling nuclear reactors to Iran. Currently, China is considering the sale of a uranium enrichment facility to Iran, but the prospect of implementing the 1985 U.S.-China peaceful nuclear energy agreement is a strong incentive for them to cancel the Iran sale.

On North Korea, the Chinese believe Kim Jong-Il is in charge and that the food shortages are not as severe as have been stated in the West. China believes the United States' efforts to denuclearize the Korean Peninsula are useful, and they sound like they are willing to be supportive of the advancement of this process. On South Asia, there appears to be a slowly growing recognition that China's own security interests are at stake in preserving stability between India and Pakistan, and reducing the likelihood of a nuclear confrontation.

The one area of major concern to China is the revised U.S. security agreement with Japan. Defense Minister Chi Haotian and Vice Foreign Minister Li Zhaoxing both raised this issue, citing the history of Japa-

nese aggression against China as the source of China's nervousness. They seemed to accept our assurances that the U.S. presence in Japan and throughout Asia is intended to reduce tensions, ensure stability, and make unlikely the military adventurism that China seems to fear from Japan. Their basic trust was evident in the Defense Minister's expressed desire to broaden and deepen military exchanges and dialogue—including ship visits—between the United States and China. Nevertheless, they are suspicious of Japanese intentions. In my view, this could become an area for serious concern if not handled carefully.

#### HUMAN RIGHTS

Our discussions on human rights did not bear a great deal of fruit. China continues to see U.S. criticism of its human rights record, and particularly the six-year-old effort to pass a resolution condemning China at the U.N. Human Rights Convention, as interference in its internal affairs. We raised the case of Nawang Choepel, a Tibetan who was arrested for recording Tibetan music under a Fulbright scholarship. However, we got little response, and subsequent to our visit, he was sentenced to 18 years in prison for spying, with the goal of splitting Tibet from China. His case is one of a number of indicators that China has significantly ratcheted up the pressure in Tibet, and that human rights abuses there have increased.

And yet, progress toward implementation of the rule of law continues, slowly but surely, including the preparation of a number of new laws limiting police powers and restricting the use of administrative detention. More progress like this remains the best long-term hope for significant improvement of the human rights situation in China.

During my meeting with President Jiang, I proposed to him a joint working group on human rights, whose members would be appointed by the two Presidents. The group would conduct research and fact-finding in order to chart the evolution of human rights in both China and the United States in the last 20 to 30 years. The group would also make recommendations on areas still in need of improvement, presenting their findings in reports to both Presidents. President Jiang said he would consider this proposal, which I believe could help break the deadlock we currently have with the Chinese over human rights and provide a methodology for discussion.

#### TAIWAN

The issues we discussed with Taiwanese leaders included: the prospects for a resumption of the Cross-Straits Dialogue with China; the U.S.-China relationship and its implications for Taiwan, including Taiwan's security; Taiwan's efforts to expand its international role, or its "pragmatic diplomacy"; Taiwan's democratic progress; and lobbying efforts in Washington on behalf of Taiwan.

I joined with Senators Daschle, Dorgan, Glenn, and Leahy for meetings with:

President Lee Teng-hui; Vice President/Premier Lien Chan; and Foreign Minister John Chang, who also hosted the delegation for dinner.

Separately from Senator Daschle's delegation, I had several additional meetings, including: a visit with Dr. Koo Chen-fu, Chairman of the Straits Exchange Foundation, in his home; a private meeting with Foreign Minister John Chang; a breakfast with Chang King-yuh, Chairman of the Mainland Affairs Council, and Dr. Koo Chen-fu; a meeting with Chiling Tong, Director of the California Office of Trade and Investment; and a luncheon hosted by the American Chamber of Commerce in Taipei.

#### THE CROSS-STRAITS DIALOGUE

Taiwanese leaders feel that, with respect to prospects for restarting the Cross-Straits Dialogue, the ball is in China's court. They accuse China's leaders of claiming to place no conditions on resumption of a dialogue, while in fact demanding an important concession in advance: Taiwan's agreement to China's interpretation of the One China policy. The PRC's demand that Taiwan acknowledge that the sovereignty and territory of China are indivisible is interpreted by the Taiwanese leaders as denying the existence of the Republic of China on Taiwan.

According to Foreign Minister John Chang, the Taiwanese leadership would rather acknowledge the existence of One China, but say that it is currently divided, and that it has two governments—the People's Republic of China government in Beijing, and the Republic of China government in Taipei. Foreign Minister Chang says that Beijing's version of the One China policy would require Taiwan to accept the communist system of government, which the people of Taiwan would never accept. He said that such a move would actually increase pro-independence sentiment in Taiwan, which his government says it opposes.

But it is sometimes difficult to distinguish Minister Chang's description of Taiwan's version of the One China policy from a Two Chinas policy, which he says his government rejects. He speaks of two co-equal Chinese governments, the PRC and the ROC, each with its own sovereignty and conducting its own international affairs. Reunification is mentioned as a lofty, but currently unrealistic goal, and one that can never happen without the collapse of the PRC government in Beijing. In our meeting with President Lee, he suggested that One China is not the current reality, but rather a future goal. It is certainly possible that such a policy causes confusion in Beijing about Taiwan's true intentions.

The Taiwanese leadership blames the PRC for its breaking off the Cross-Straits Dialogue following the promising talks between Koo Chen-fu of Taiwan's Straits Exchange Foundation and Wang Daohan of China's Association for Relations Across the Taiwan Straits in May 1995. In so doing, Taiwanese leaders draw no explicit connection between Lee Teng-hui's visit to Cornell University and the Chinese decision. Nevertheless, the Taiwanese leadership does seem to have internalized the need to proceed cautiously and avoid provocative actions to which the Chinese leadership will feel forced to respond. President Lee maintains that he is eager to meet with President Jiang Zemin, but expects that any movement will be impossible before the 15th Communist Party Congress takes place in the fall of 1997.

At the same time, there are signs that President Lee is encouraging a loosening of ties with the mainland. Taiwanese interests have \$30 billion worth of foreign investment in China, and two-way trade across the strait stands at \$20 billion annually. In recent months, President Lee has admonished the business community "not to put all its eggs in one basket" and to diversify its markets for exports and investment. There is even talk of more formal restrictions on large investment projects in China. It is not clear whether this trend is a sign of a weakening of Lee Teng-hui's commitment to reunification, or an indication that he feels that the deepening of economic ties across the strait will decrease Taiwan's bargaining power over political issues. Either way, it is a source of concern to the business community and reunification advocates on both sides of the strait.

A similar question could be posed about Lee's reticence to agree to the three direct

links (air, shipping, and postal) that China is eager to establish. The shipping link is ostensibly stalled over which flag the ships will fly in which ports. But these questions will essentially become moot after the transition of Hong Kong to Chinese rule. At that point, Taiwanese ships sailing to Hong Kong will be conducting a direct link with China. There is some debate on this point within the Taiwanese leadership—Minister Chang denied that direct links would be established via Hong Kong, which Dr. Koo suggested that Hong Kong's transition could provide an opening to formalize such links. Whatever reluctance the Taiwanese leadership may have about establishing such links, there seems little doubt that they will need to do so eventually. Taiwan's business community strongly favors the links. But beyond that, considering China's increasingly important role in Asia's economy, the Taiwanese leadership's stated desire to develop Taiwan into an Asian-Pacific Regional Operations Center for business, finance, media, entertainment, and other sectors seems hopelessly unrealistic unless companies that base themselves in Asia can interact directly with China.

I was particularly impressed by my discussions with Dr. Koo Chen-fu. He appears to have a keen understanding of the constraints under which the Chinese leadership is operating, and is apparently thinking creatively about ways to break the impasse. In contrast to some of his colleagues, who seem content to restate Taiwan's position and explain why China is to blame for the talks not restarting, Dr. Koo takes a nuanced approach to the problem and is probing for solutions. Taiwan would benefit from his ability to influence their internal policy debates.

#### TAIWAN'S SECURITY

The Taiwanese leaders we met all expressed their extreme gratitude for the U.S. decision to deploy two aircraft carriers near the Taiwan Strait during the March 1996 Chinese missile tests and military exercises in the Strait. They also expressed appreciation for U.S. arms sales to Taiwan which, according to the Taiwan Relations Act, are supposed to ensure Taiwan's ability to defend itself. The United States, they said, has lived up to its commitments in the Taiwan Relations Act.

Premier Lien Chan and Foreign Minister John Chang, however, emphasized that China's purchase of Russian Su-27s and the presence of Russian military advisers in China underlined the need for Taiwan to begin to take delivery of the 150 F-16s from the United States in 1997. Taiwan has also purchased 70 Mirages from France. These two purchases, they feel, will combine to bolster Taiwan's air defense capabilities.

In addition, Taiwanese leaders clearly understand the impact of diplomatic events on their security. Therefore, Lee Teng-hui himself said plainly that he is very supportive of a healthy U.S.-China relationship, including regular dialogue at the highest levels. While Foreign Minister Chang said that he would not want the U.S.-China relationship to improve at the expense of Taiwan, there is clear recognition among Taiwanese leaders that their security is enhanced, rather than threatened by improved relations between the United States and China.

#### TAIWAN'S INTERNATIONAL EFFORTS

Although fully aware of Beijing's objections, Taiwanese leaders plan to continue their efforts to forge international ties through what they call "pragmatic diplomacy." In an effort to expand Taiwan's "breathing space," Lee Teng-hui will continue to conduct what he considers to be private visits abroad, and Taiwan will seek to maintain its diplomatic ties with those countries who recognize it and to gain entry

into the United Nations. Taiwan is also placing a high priority on its application to the World Trade Organization, which it wants considered on its own merits, with no connection to China's application. Both of these pursuits could present serious problems should the United States once again become entangled.

In light of South Africa's decision to sever its ties with Taiwan and establish diplomatic relations with Beijing, Taiwanese officials are increasingly concerned that they may be slipping in their competition with Beijing for international recognition. Besides believing that Taiwan, as the world's 14th largest trading nation, is entitled to the aspects of a sovereign nation (such as diplomatic relations), they believe that surrendering this position would only increase sentiment for independence in Taiwan. Lee's ruling Kuomintang Party estimates that the pro-independence Democratic People's Party would win the next elections if Taiwanese voters perceived their government to be abandoning its sovereignty.

Lee and his advisers say they understand Beijing's sensitivities on this issue, but they claim to be surprised by China's reaction to Lee's visit to the United States. He does not see Taiwan's international efforts as posing any threat to China's view of the One China policy. Nevertheless, for the past year and a half, Lee has somewhat moderated his own personal role in Taiwan's international efforts. Whether he continues to eschew an overt challenge to China's concerns will help determine whether or not there is a repeat of the cross-straits crisis of 1995-96.

#### DEMOCRACY

Taiwan's leaders are justifiably proud of the progress of Taiwanese democracy in the March 1996 elections. Lee pointedly rejects the concept of "Asian values" championed by Singapore's Lee Kwan Yew and others, which suggests that Asian societies are not conducive to democracy. Lee Teng-hui and his colleagues say they have learned from this experience to be responsive to the electorate, and hence, they feel justified in their international efforts. But they also recognize the need to maintain stability: Lee estimates that Taiwan needs 30 years of stability to consolidate its democratic institutions. This realization could inject a note of caution into their relationship with China.

#### LOBBYING EFFORTS

During our discussion with Premier Lien Chan, he made an unsolicited assertion that the Taiwanese government does not spend any money on lobbying efforts in Washington. He said that some individuals and groups—and when prodded, agreed that such groups could include the ruling KMT Party—might lobby in Washington for causes that coincide with the policies of the Taiwanese government, such as Taiwan's efforts to gain entry into the United Nations. He asserted in no uncertain terms that any firm or individual that claims to be lobbying on behalf of the government of Taiwan is misrepresenting itself. However, he did concede that in the final analysis, the positions adopted by lobbying organizations (and whether or not they coincide with Taiwanese policies) are more important than the actual source of funding of that lobbying activity.

#### HONG KONG

The issues we discussed with Hong Kong leaders included the appointment of a new Chief Executive; the induction of a Provisional Legislative Council; the prospects for the maintenance of Hong Kong's freedoms and civil liberties after the transition to Chinese rule; Hong Kong's economic outlook after the transition; and what role the United States should play as the transition moves forward.

On the evening of Friday, November 15, I joined Senator Daschle's delegation for a dinner hosted by U.S. Consul General Richard Boucher at his home. In attendance were a cross-section of members of the Hong Kong community, representing a variety of political and other views, including Democratic Party leader Martin Lee and Preparatory Committee Member Nellie Fong. During the rest of our stay, I conducted meetings and working meals with Chief Executive-Designate Tung Chee-hwa (C.H. Tung); Members of the American Chamber of Commerce in Hong Kong (with Senator Daschle's delegation); Governor Chris Patten (with Senator Daschle's delegation); Members of the Better Hong Kong Foundation, including Henry Cheng, Edgar Cheng, and Leonie Kie; U.S. Consul General Richard Boucher; William Overholt, Managing Director of Banker's Trust and a leading Hong Kong watcher and author; Nellie Fong, Member of the Preparatory Committee and Executive Director of the Better Hong Kong Foundation.

I also attended the opening dinner of the World Economic Forum 1996 Europe/Asia Economic Summit, at which Chief Secretary Anson Chan was the keynote speaker. On Tuesday, November 19, I participated in a panel discussion on Hong Kong's future at a session of the World Economic Summit, at which C.H. Tung was the main speaker and I responded to his remarks.

#### SELECTION OF THE CHIEF EXECUTIVE

We arrived in Hong Kong the day that C.H. Tung won a majority of votes from the Preparatory Committee in the first round of voting for Chief Executive, catapulting him to victory in the final round of voting three weeks later. The general assessment of Mr. Tung is positive: he is considered to be intelligent, fair-minded, and concerned about the best interests of Hong Kong. Gov. Chris Patten, is highly complimentary of Mr. Tung's abilities. But there is obvious concern in some quarters—voiced by Gov. Patten, Martin Lee, and others—about the degree of independence from Beijing he will be able to demonstrate in his governance.

In his public statements, Mr. Tung has been attentive to the concerns expressed by various members of the Hong Kong community. He explains that he intends to consult widely and deeply among Hong Kong's citizenry, and that he intends to be protective of Hong Kong's interests when dealing with Beijing. At the same time, he makes clear that Hong Kong's relationship with China is about to become much closer, and that this change is not something to dread; indeed, it can bring significant mutual benefit.

My own view of Mr. Tung, whom I know reasonably well, is that he is unquestionably qualified for the post of Chief Executive, having shown impressive administrative skills as a shipping magnate, and having been a leading promoter of Hong Kong. I am hopeful that he will display the right instincts about how to maintain a significant degree of autonomy for Hong Kong while managing what will inevitably be a closer relationship with Beijing. His challenge will be to reassure the people of Hong Kong that he can and will stand up for Hong Kong's interests when challenged, and do so in such a way that the Beijing authorities will respect. His excellent reputation in both Hong Kong and Beijing is a crucial asset as he sets out to achieve this challenging balancing act.

#### *The Provisional Legco*

Beijing's decision to follow through on its decision to establish a provisional legislature (Legco) and abolish the existing Legco on July 1, 1997 is unfortunate. While the Provisional Legco grows out of China's (accurate) sense that the British changed the rules in Hong Kong after the signing of the

1984 Sino-British Joint Declaration, its ultimate impact will be difficult to judge until we know what comes after it.

Some hold out hope that China may reverse itself and decide not to disband the elected Legco after all, but as the Chinese say, "the rice is cooked" on that decision. Indeed, the Provisional Legco has already begun meeting. However, Beijing, and its supporters in Hong Kong, insist that the Provisional Legco will be replaced by a popularly elected Legco within one year of the handover.

If the Provisional Legco is replaced within a year by a genuinely elected body, and if it restrains itself during its tenure from dismantling many of the basic freedoms enjoyed in Hong Kong, the current battle over the Provisional Legco will in retrospect look excessive. But if the Provisional Legco enacts far-reaching changes in Hong Kong law, or if its tenure is arbitrarily extended, or if the elections for its successor are rigged to produce a pro-Beijing result, the Provisional Legco will have proved to be a harbinger of a serious deterioration of the autonomy of Hong Kong. Above all, neither the Provisional Legco nor its successors can be allowed to be forced to take orders from Beijing.

The appointment of the Provisional Legco poses a significant risk of confrontation during the days surrounding the transition. Martin Lee and other legislators from the Democratic Party and its allies have raised the possibility of refusing to vacate the Legco building on July 1. If they were removed by force, or a conflict erupted, it would cast a pall over the entire transition and set an ominous tone for what would follow. It is imperative that the Democratic Party and the authorities in Beijing engage in a dialogue now to find areas where they can agree to work together amid their broader disagreements, and to avoid a confrontation after July 1.

#### *Overall Freedoms*

The mood in Hong Kong is mixed. Few people that we talked to predicted a disaster after July 1, but among some observers, there was undeniable anxiety about certain aspects of the transition.

Among members of the Preparatory Committee, like Nellie Fong, there is considerable optimism. She argues that China will find it very much in its own interests to avoid imposing a harsh new order on Hong Kong. She predicts that after a few fairly minor adjustments, Hong Kong will emerge from the transition with its autonomy very much intact.

Others are less sure. Governor Patten described the anxiety of many at China's threatened revisions of the Hong Kong Bill of Rights; at China's unwillingness to apply international covenants on human rights to Hong Kong; and at the statements of Foreign Minister Qian Qichen that commemorations of the Tiananmen Square tragedy will not be allowed. At a time when virtually all leading dissidents in China are in prison, these indications have caused considerable nervousness in Hong Kong.

#### *Economic Outlook*

Notwithstanding the mixed views about Hong Kong's political future, there is significantly more unanimity about its economic future. With few exceptions, our interlocutors expect Hong Kong's flourishing economy to continue its solid performance after the transition.

As Governor Patten points out, Hong Kong continues to post solid economic growth figures of 6-8 percent year after year, while unemployment is at 2.5 percent and inflation is under 5 percent. There have been no tidal waves of emigration, and none are expected.

Since 1992, the Hang Seng index has more than tripled in value.

Surveys conducted by the American Chamber of Commerce and others consistently show that business confidence remains well in excess of 90 percent. A negligible number of businesses have left Hong Kong, while new ones arrive every month. For many, the knowledge that Hong Kong will remain after the transition the gateway to the vast Chinese market that it has always been is all the encouragement they need. But there is also a fairly relaxed attitude about the approach to business that China will take. While there are concerns about attempts by the Chinese authorities to restrict the free flow of economic information or stifle the press, for the short term at least, Hong Kong's economic prospects appear very positive.

#### *The U.S. Role*

The United States has clear interests in the continuation of Hong Kong's prosperity and autonomy. We need to regularly make clear to the Chinese authorities that we would oppose any attempt to significantly roll back the freedoms enjoyed by the people of Hong Kong, whether through the repeal of the Bill of Rights, or a crackdown on free expression in the press. We should express these views forcefully but carefully. A combination of public statements and private communications with both Chinese and Hong Kong officials is most likely to be effective. At all times, we should highlight China's own commitments to allow Hong Kong to govern itself with a "high degree of autonomy" and use that as the standard by which to judge Chinese actions.

Besides our commitment to Hong Kong's autonomy, we must also be vigilant about protecting our economic and strategic interests in Hong Kong. But vigilant need not mean confrontational. Through dialogue and negotiations, we can remind China about our need to maintain a fully functioning Consulate General in Hong Kong; the importance of being able to base our regional law enforcement operations in Hong Kong; the significance of allowing continued ship visits; and the importance to U.S. businesses of Hong Kong continuing to allow business to be conducted on a level playing field, without corruption and with a free flow of information. If we are firm about these interests without causing a confrontation before it is necessary, we are likely to be successful in protecting them.

#### *Nepal*

The issues I discussed with Nepalese officials included: the stability of Nepal's government and its still fledgling democracy; prospects for Nepal's economic development and role of foreign aid in that development; Nepal's contribution to international problems such as peacekeeping, arms control, narcotics, terrorism, and refugees; regional issues, including Nepal's relationships with its key neighbors, India and China; and the need and prospects for the development of Nepal's hydropower industry.

I had the opportunity to meet with virtually all the leading figures in Nepal, including His Majesty King Birendra Bir Bikram Shah; Prime Minister Sher Bahadur Deuba; Foreign Minister Prakash Chandra Lohani; Members of the Nepali Congress Party, the ruling party in the parliament; Members of the United Marxist/Leninist, or Communist party, the largest party in the parliament; Members of the Federation of Nepali Chambers of Commerce and Industry; and Minister of Water Resources Pashupati Rana.

I met many additional leading Nepali citizens at dinners hosted by U.S. Ambassador Sandy Vogelgesang and our host, Mr.

Prabhakar Rana, a leading industrialist. I also traveled extensively through the country, getting a sense of living conditions, and observing aid projects run by the U.S. government and others. In particular, I focused on projects financed by my husband's American Himalayan Foundation, including a Tibetan refugee center. At the conclusion of the trip, I had the opportunity to discuss with Ambassador Vogelgesang and the Prime Minister's wife, Ms. Arzu Deuba, plans for establishing a public-private partnership to fund a women-to-women nutrition program for Nepali pre-school children.

In addition, Dan Shapiro of my staff conducted separate meetings with the U.N. High Commission for Refugees representative in Nepal, Erkki Heinonen, and Anil Chitrakar of the International Union for the Conservation of Nature for a discussion of the environmental impact of new large hydropower dams. He also attended several sessions of a conference on export and investment opportunities for U.S. firms in the renewable energy sector in Nepal. The conference was sponsored in part by the U.S.-Nepal Chamber of Commerce.

#### *Political Stability and Democracy*

Nepal has only been a democracy since 1991, but already it has developed a lively political culture. Nepalis are engaged in the political process and conduct an active dialogue with their political leaders. In meetings with leaders of the two largest parties in the parliament, the Nepali Congress Party and the United Marxist-Leninist Party, it became clear that there is widespread support for maintaining the multiparty democracy that has been established.

There is a surprising degree of consensus across the political spectrum about what the nation's overall priorities and needs are. When asked to identify Nepal's priority economic sectors, both parties came back with an identical list—agriculture, hydro-power, and tourism. The Communists seem to be communist in name only—their economic agenda seems to differ little from that of the Congress party, calling for somewhat slower privatization of state-owned industries and placing greater emphasis on maintaining the social safety net. But the differences are of degree, rather than kind.

Unfortunately, near-consensus on national priorities has not translated into the kind of progress one would have hoped for, on account of particularly bitter political infighting. The Congress party suffers deep divisions based largely on personal rivalries, with former leader G.P. Koirala rumored to be planning a challenge to Prime Minister Sher Bahadur Deuba. Its struggles with its coalition partners has forced it to expand the government to include over 40 ministers just to remain in power.

The Communists, while more united internally, are waiting in the wings for a coalition crisis that they can exploit and possibly regain power. Former Prime Minister and party leader Manmohan Adhikary was quite open on this point. Last fall, the Communist party nearly brought the government down by threatening to oppose a key hydro-power treaty with India—even though it was negotiated when the Communist party was in power—before ultimately deciding to support it. While all sides often talk about consensus and cooperation, it is clear that their actions are often dictated by short-term political calculations.

If both groups were to put aside their political rivalries and emphasize the large degree of agreement in their positions, they would easily be able to work together on a common agenda for the benefit of Nepal. Unfortunately, that does not seem likely at the

present time. Corruption continues to plague the government as well. Nevertheless, Nepalis are rightfully proud of the democracy they have established and, apparently, consolidated.

#### *Aid and Development*

Nepal is one of the poorest countries in the world. Especially as one travels outside of Kathmandu, the poverty is visually evident and jarring. In part, the political stalemate caused by inter- and intra-party rivalries has stalled economic liberalization efforts that would begin to alleviate some of the economic difficulties. But Nepal's lack of natural resources, poor infrastructure, and high birth rate will all make raising the standard of living in Nepal extremely difficult.

Nepal does have the benefit of a well-educated and sophisticated private sector, as exemplified by our discussion with members of the Federation of Nepali Chambers of Commerce and Industry (FNCCI). They have actively promoted economic reform, working closely with the government on the privatization of public industries and on efforts to attract foreign investment, particularly in high-value products in Nepal's agricultural sector. In addition, FNCCI has worked hard to advance reform of the administration of Nepal's tax system, which they described as arbitrary and corrupt.

FNCCI has also been deeply involved in Nepal's economic diplomacy. Because of their expertise, FNCCI members participated in negotiations with India on trade and transit agreements, and a new air transport agreement. FNCCI has also reached out to its counterparts in China and in other South Asian countries through the SAARC Business Council.

U.S. assistance is making a significant difference in the lives of many Nepalis, although cuts are beginning to reduce its impact. In Fiscal Year 1997, the USAID program budget is \$26 million. While that number is not expected to drop precipitously in the near future, USAID staff is being reduced, with the current 10 direct hires being reduced to 5 in 1998. The three main areas of USAID's program are promotion of high value-added agricultural production; empowerment of women; and health, population, and family planning programs. Family planning programs are particularly important because the standard of living in families that have spaced their pregnancies is significantly higher than those who have not.

#### *Nepal's International Role*

Nepal has emerged as responsible international citizen, making important contributions to a number of transnational problems. Despite pressure from its neighbor, India, Nepal stood by its support of arms control agreements generally when it supported the Comprehensive Test Ban Treaty at the United Nations in September. Nepal has also been very cooperative with U.S. anti-narcotics efforts. As a transit point for heroin from the Golden Triangle and Afghanistan, Nepal has worked with a DEA attache in New Delhi to set up a drug enforcement unit in the local police force. Trained by U.S. and British specialists, this unit has improved Nepal's customs procedures and has increased the number of drug seizures at the Kathmandu airport.

Nepal has been an enthusiastic participant in international peacekeeping missions, sending its troops to Haiti and Africa, among other destinations. U.S. diplomats also report that Nepal has been extremely cooperative in counterterrorism efforts. They attribute much of Nepal's cooperative attitude on these international problems to the consolidation of Nepali democracy. Another manifestation is that Nepal enjoys the best human rights record in South Asia.

Nepal has also handled two difficult refugee situations very sensitively—those from Bhutan and those from Tibet. There are currently 91,000 Bhutanese refugees living in camps administered by UNHCR in eastern Nepal, at a cost of \$4.5 million a year. They first arrived in the early 1990s. After many years of stalemate, the Nepali and Bhutanese governments are hesitantly beginning talks—possibly with European mediation—on possibly resettling some of these refugees back to their homes in Bhutan. But for a solution to this problem to be reached, India will have to commit to helping facilitate it because these refugees would have to transit through India, and some may even choose to settle there.

Approximately 2,000 Tibetan refugees pass through Nepal each year as a way station on the way to Dharmasala, India. Nepal has set up transit centers for these refugees to help them make the journey, even though it causes sensitivity in China. Nepal prefers to do this quietly, precisely to avoid upsetting the Chinese, and the government does not permit anti-Chinese activity on Nepali soil. A U.S. earmark of \$200,000 a year goes to assist this Tibetan refugee community through the Tibetan Welfare Organization. UNHCR also monitors the well-being of these refugees, and tries to keep track of any abuses. The week we were there, a group of refugees had been beaten up by some Nepali youths. UNHCR and the U.S. Embassy were urging the Nepali government to ensure that action was taken against the perpetrators.

#### *Relations with India and China*

Foreign Minister Lohani was pleased about the state of Nepali-Indian relations, especially since Indian Prime Minister Deve Gowda came to power. He cited recent breakthroughs in the area of trade, transit and border issues, and the generally less paternalistic attitude adopted by the Deve Gowda government toward India's smaller neighbors.

But probably the most important achievement is the Mahakali Treaty on water resources. The treaty establishes Nepal's right to be treated as India's equal on water resource issues. It also established the framework of for private sales of electric power from Nepal to India at competitive prices. With Nepal's major market being India, this framework agreement was absolutely essential for any large-scale private investments in electric power generation.

Despite Nepal's continued assistance to Tibetan refugees, Foreign Minister Lohani was pleased to report that his recent visit to China had gone very well, and relations with China are as good as they have been in recent memory. He cited the strong positions the Chinese had expressed on Taiwan and Tibet. Nepal is faced with a constant balancing act, situated as it is between two large and powerful neighbors who can exert strong pressures on Nepal if and when they choose. But by adopting essentially a "good neighbor" policy, Nepal is able to keep tensions in these two relationships to a minimum.

#### *Hydro-Power*

There is widespread agreement in Nepal that hydro-power is the nation's number one natural resource. With great volumes of water (225 billion cubic meters annually nationwide) flowing down steep slopes in four major river basins (Mahakali, Karnali, Gandaki, and Koshi), if the full potential of Nepal's hydro-power can be harnessed, it could have a dramatic impact on the nation's economy. The numbers are staggering: hydro-power projects in Nepal today generate 250 megawatts, while demand is under 300 megawatts. As Nepal develops, its demand will rise; projections are that demand

will reach 1,640 MW by 2015. But if the over 60 feasible sites for hydro-power projects are developed, Nepal could produce on the order of 44,000 MW, a vast surplus that can be exported to Nepal's energy-hungry neighbors, India and China. Northern India is the brightest (and closest) potential market. Already its energy demand exceeds supply by some 9,000 MW, and that deficit is projected to rise to 20,800 MW by 2010.

The prospect of taking advantage of these conditions was made brighter by the conclusion of the Mahakali treaty with India last October. This treaty will allow the private sales of electric power from Nepal to India. Essentially, both countries would benefit from this arrangement—Nepal could export its primary product to a vast market in northern India that is desperately in need of increased electric power. Foreign Minister Lohani sounded an optimistic note, indicating that there could be substantial progress in construction of the dams in the next year, in hopes that they could come on line fairly soon thereafter. Clearly, American companies should be able to play a leading role in developing this vast resource.

Not surprisingly, politics were responsible for delays on other hydro-power projects. Prime Minister Deuba indicated that he supported signing a letter of intent with Enron for two hydro-electric projects on the Arun and Karnali rivers, now that India had indicated it had no objection to this arrangement, provided that Indian companies were also included in the consortium. However, the final decision rests with the Minister of Water Resources, Pashupati Rana, to whom the Prime Minister felt indebted for supporting his government in a no-confidence vote last spring.

Various American environmental organizations have raised objections to some of the large hydro-power projects that have been proposed, both because of the change in the river's flow and because of the damage done by the construction of a road to facilitate construction of the dam. But Nepali environmentalists tend to take a different view. Their concern is that Nepal's vast forests are being destroyed as most Nepalis rely on wood as their main source of energy. For them, this is the real environmental disaster, and the successful development of hydro-power, which could supply most regions of the country with electricity, would help preserve the forests. For Nepali environmentalists, the focus is on seeing the hydro-power projects done right, so as not to squander this vast resource, while mitigating the environmental impact of the dams as much as possible.

#### UNANIMOUS-CONSENT AGREEMENT—NOMINATION OF RODNEY SLATER

Mr. DOMENICI. Madam President, as in executive session, I ask unanimous consent that the majority leader, after consultation with the Democratic leader, may proceed to executive session to consider the nomination of Rodney Slater to be Secretary of Transportation. Further, I ask unanimous consent that it be considered under the following limitations: that there be 30 minutes for debate on the nomination, equally divided between the chairman and ranking member of the Commerce Committee, and immediately following the expiration or yielding back of time the Senate proceed to vote on the confirmation of the nomination. I finally ask unanimous consent that following