

None of us is under any illusion that the measure which we introduced removes all complexity or breaks bold new conceptual ground. We believe, however, that the enactment of this legislation would be a significant step in the right direction. The legislation would enhance the ability of America to continue to be the preeminent economic force in the world. If our economy is to continue to create jobs for its citizens, we must ensure that the foreign provisions of the United States income tax law do not stand in the way.

There are many aspects of the current system that should be reformed and greatly improved. These reforms would significantly lower the cost of capital, the cost of administration, and therefore the cost of doing business for U.S.-based firms. This bill addresses a number of such problems, including significant anomalies and provisions whose administrative effects burden both the taxpayers and the government.

The focus of the legislation is to put some rationalization to the international tax area. In general, the bill seeks in modest but important ways to: (1) simplify this overly complex area, especially in subpart F of the Code and the foreign tax credit mechanisms; (2) encourage exports; (3) enhance U.S. competitiveness in other industrialized countries.

The bill would, among other necessary and important adjustments, make permanent the provision regarding the subpart F exception for active financial services income, modify other provisions that apply subpart F of the Code in inappropriate ways, eliminate double taxation by extending the periods to which excess foreign tax credits may be carried, restore symmetry to the treatment of domestic and foreign losses, and make needed adjustments to the so-called "10/50 company" provisions that burden the joint venture relationships that many of our companies form in their international business relations.

In summary, the law as now constituted frustrates the legitimate goals and objective of American business and erects artificial and unnecessary barriers to U.S. competitiveness. Neither the largest U.S. based multinational companies nor the Internal Revenue Service is in a position to administer and interpret the mine numbing complexity of many of the foreign provisions. Why not then move toward creating a set of international tax rules which taxpayers can understand, and the government can administer? Therefore the proposed changes we believe represent a creditable package and a "down payment" on further reform in the international tax area. We urge our colleagues to join us in cosponsoring this important legislation.

TRIBUTE TO RETIRED COLONEL
ALICE GRITSAVAGE

HON. CLIFF STEARNS

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. STEARNS. Mr. Speaker, I rise to take notice of a special citizen, Retired Colonel Alice Gritsavage. She is one of a kind person that deserves special recognition.

Ms. Gritsavage resides in my hometown of Ocala, Florida and she has had a remarkable life. Ms. Gritsavage served our nation as a

nurse in both World War II and the Korean War. In fact, her outstanding record as an executive Army nurse in World War II influenced General Douglas McArthur to request that she be named to his staff as Chief Nurse of the Far East Command at the start of the Korean conflict.

I would like to quote from the congratulatory letter Col. Gritsavage received on the date of her departure from the Korean Command on May 28, 1953 from General Mark Clark, Commander in Chief of the United States Army at that time.

General Clark wrote:

You had been in the theatre only a short time when the Communist aggressors threatened world peace by their unprovoked invasion of South Korea. This event required a tremendous build up of medical and hospital facilities, both in Japan and Korea, to care for the wounded of the United Nations. Since that time the standards of the Army Nurse Corps in the Command have reached a level unparalleled in the Corps. Your untiring efforts, outstanding leadership and devotion to duty have set a brilliant example and have been directly responsible for the excellent services performed by our gallant Army Nurses in this, the United Nations first armed bid for world peace.

Col. Gritsavage's dedicated service to our nation led our local chapter of Korean War Veterans to name their chapter after Ms. Gritsavage. At the time of this dedication in 1995, the Ocala chapter was the only one in the nation to be named after a woman—reflecting the importance of Col. Gritsavage to our community.

I thank Colonel Gritsavage on behalf of my district and on behalf of our nation for her wonderful service in her remarkable life.

IN HONOR OF MS. FEN LEWIS AND
MS. LOIS KLAMAR FOR RECEIVING
PRESIDENTIAL AWARDS

HON. DENNIS J. KUCINICH

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. KUCINICH. Mr. Speaker, I rise today to honor Ms. Fen Lewis of Strongville High School and Lois Klamar of Jamison CompuTech Center for receiving presidential teaching awards. Ms. Lewis and Ms. Klamar will receive their awards at a White House ceremony the week of June 7, 1999.

The Presidential Teaching Awards program recognizes a special group of elementary and secondary teachers for their commitment and dedication to nurturing student interest in science and mathematics. Ms. Lewis and Ms. Klamar are indeed very devoted teachers and are well deserving of these prestigious awards.

They have set an example for all teachers across the nation to follow. We need more teachers like Ms. Lewis and Ms. Klamar to help our kids strive for excellence in the classroom. The students of these two schools should be honored and proud to have these people as their teachers and role models. Both teachers are excellent representatives of their schools because of their considerable accomplishments with their students. These teachers have been presented with one of the highest honors in their field and should be given their rightful recognition.

My fellow colleagues, please join me in honoring both of these outstanding teachers on receiving presidential awards.

SIXTH REPORT OF THE SPEAKER'S
TASK FORCE ON THE HONG
KONG TRANSITION

HON. DOUG BEREUTER

OF NEBRASKA

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. BEREUTER. Mr. Speaker, this Member rises today to submit the Sixth Report of the Speaker's Task Force on the Hong Kong Transition. It has been almost two years since Hong Kong reverted to Chinese sovereignty on July 1, 1997. Prior to that historic event, at the request of Speaker Gingrich, this Member formed the House Task Force on Hong Kong's Transition. In addition to myself as Chairman, the bipartisan Task Force includes Representatives HOWARD BERMAN (D-CA), SHERROD BROWN (D-OH), ENI FALCOMAVAEGA (D-AS), ALCEE HASTINGS (D-FL), DON MANZULLO (R-IL), and MATT SALMON (R-AZ).

To date, the Task Force has prepared six quarterly reports assessing how the reversion has affected Hong Kong. The sixth report, which I submit today, covers the period of October through March 31, 1999, during which time this Member, as Task Force Chairman, visited Hong Kong in January 1999.

Mr. Speaker, this Member submits the following Task Force report for the RECORD.

THE SPEAKER'S TASK FORCE ON THE HONG
KONG TRANSITION, SIXTH REPORT

This is the sixth report of the Task Force on the Hong Kong Transition. It follows the first report dated October 1, 1997, the second reported dated February 25, 1998, the third report dated May 22, 1998, the fourth report dated July 23, 1998, and the fifth report dated February 2, 1999. This report focuses on events and development relevant to United States interests in the Hong Kong Special Administrative Region (HKSAR) between October 1, 1998, and March 31, 1999, and incorporates findings drawn from the Task Force Chairman's visit to Hong Kong in January, 1999.

Hong Kong's ongoing economic recession marked the six months covered by this report as the consequences of the Asian Financial Crisis continued to be felt. Hong Kong's gross domestic product (GDP) declined by 5.1 percent in real terms in 1998, its first annual contraction on record. Unemployment and trade figures were correspondingly negative. Despite the difficulties, Hong Kong authorities operated independently in all areas of economic decision making, and there was no evidence of any attempt to intervene by Beijing. Opinion on the Hong Kong government's controversial August 1998 intervention in the currency, stock and futures markets turned increasingly positive as equities regained much of their lost value and the currency exchange rate held steady.

In the legal-political realm, Chinese officials' public expressions of unhappiness over a controversial decision by Hong Kong's Court of Final Appeal raised concern about the future independence of the Hong Kong judiciary. Discussions between Hong Kong and Beijing authorities, combined with a "clarification" issued by the court, appeared to have succeeded in settling the matter, at least temporarily, without serious damage to the "one country, two systems" concept. The

practical consequences of the court decision, which could permit a large number of persons now in China to claim the right to reside in Hong Kong, had not yet been dealt with at the end of March. The Hong Kong Government's obvious displeasure with the ruling, combined with public fears of the consequences of renewed mass immigration, led to fears that the Government would seek Beijing's assistance in rolling back the decision in a manner that would undermine Hong Kong's judicial independence and the rule of law.

ECONOMIC DEVELOPMENTS

Hong Kong continued to suffer the negative effects of the Asian Financial Crisis, posting its fourth consecutive quarter of negative growth, as its first recession in thirteen years showed no sign of coming to a quick end. Preliminary estimates showed GDP dropped 5.7 percent in real terms in the fourth quarter of 1998 following a decline of 6.9 percent in the third quarter. For 1998 as a whole, Hong Kong's GDP fell by 5.1 percent, the first annual economic contraction in Hong Kong since such statistics have been calculated. Spending for private consumption continued to fall steeply, declining 9.3 percent in the fourth quarter of 1998, as consumer confidence remained affected by rising unemployment and stagnating personal income. Weak demand and dropping asset values brought about significant deflation, with consumer prices declining for four consecutive months beginning in November. In February, the consumer price index dropped by 1.7 percent. Unemployment reached 6.2 percent in the first quarter of 1999, the highest level recorded in twenty-five years. An early economic turnaround continued to appear unlikely, with most analysts predicting an upturn no earlier than the last quarter of 1999. Many view the official Hong Kong government's forecast of 0.5 percent GDP growth in 1999 as too optimistic, with some private analysts predicting a decline of as much as 3 percent.

The government's budget for the 1999-2000 fiscal year that began April 1, 1999, projects a budget deficit of HK \$36.3 billion (US \$4.7 billion). This comes on top of an estimated deficit of HK \$32 billion (US \$4.1 billion) in fiscal year 1998-1999. The government anticipates running a deficit for the next two years before returning to a balanced budget in fiscal 2001-2002, but maintains this is a prudent and modest use of Hong Kong's sizable reserves during difficult economic times. While the general consensus among analysts is that a modest deficit is justifiable in view of the current recession, some have voiced concern about the impact three consecutive years in the red would have on Hong Kong's reputation for fiscal prudence. Some also attribute the fiscal deficit in part to Hong Kong's continued reliance on an excessively narrow, property-focused revenue base.

There was some positive economic news during the reporting period. The tourism market continued to cover, with January 1999 visitor arrivals up nearly 11 percent over the previous year. The liquidity crunch in the banking sector showed signs of easing, and interest rates began to move downward, although real interest rates remain high by historical standards. Improved international investor confidence helped the stock market to recover much of the ground it had lost since the onset of the financial crisis, and the Hang Seng index stood above 11,000 at the end of March. The renewed buoyancy in the equity markets turned the government's August 1998, market intervention into an extremely profitable venture, with shares acquired by the government appreciating by 20 percent or more. The real estate market also

showed signs of bottoming out. The government announced it would resume land sales in April, ending the suspension it imposed in June 1998 to reduce downward pressure on property values. Hong Kong's hard currency reserves also remained substantial.

By the end of March, however, these encouraging signs had yet to translate into improvements in Hong Kong's real economy. Concerns remained about Hong Kong's continued dependence on entrepot trade and the relative lack of growth in sectors with high value-added, such as the high-tech industry. The government sought to address the latter problem by announcing an ambitious "Cyberport" project aimed at attracting world class information technology companies, but opinions varied as to the commercial viability of the proposal. An increasing percentage of Hong Kong's visitors for tourism are coming from China (27 percent in 1998 versus 22 percent the previous year and 19 percent in 1993). Chinese visitors are believed to spend substantially less than tourists from more affluent countries such as Japan and the U.S., whose numbers have stagnated or declined over the same period. In the short term, Hong Kong's exports (both domestic and transshipments) will probably remain depressed due to the weakened economies of some of its key trading partners and its higher cost of production relative to competitors that have devalued their currencies. The problems of certain mainland companies and financial institutions, highlighted by the insolvency of the Guangdong International Trust and Investment Corporation, also have the potential to negatively affect Hong Kong. With a return to growth apparently still some time off and credit still extremely tight for small and medium sized businesses, more pay cuts and layoffs are likely in the months ahead. Although pressure has clearly eased since the August intervention, the Hong Kong dollar remains vulnerable to speculative attacks. Renewed instability in regional financial markets could seriously set back Hong Kong's prospects for recovery.

REVISITING THE AUGUST 1998 MARKET INTERVENTION

One of the key events described in the Fifth Task Force report was the Hong Kong government's massive intervention in the stock, currency and futures markets on August 14, 1998. On that Friday afternoon, Financial Secretary Donald Tsang invested the equivalent of an estimated US \$15 billion of Hong Kong's reserves in the market in what proved to be a successful effort to defend against outside speculators betting against Hong Kong's ability to sustain its currency's peg to the U.S. dollar. Although controversial at the time, over the subsequent months the intervention has increasingly come to be viewed as a regrettable but necessary action, even by many who questioned it initially. During the Task Force Chairman's visit to Hong Kong in January, it was evident that even the sharpest critics of the intervention had changed their opinion and believed the government made the right decision. Direct discussions with those involved also made it abundantly clear that the Hong Kong authorities acted entirely independently in undertaking the intervention. While they informed their interlocutors in Beijing of their actions, they did not consult them beforehand or seek their agreement before proceeding.

As noted above, the equities purchased by the government have appreciated significantly in value during the recent recovery in the Hong Kong stock market. To allay fears that this sizable portfolio will be manipulated for political purposes or will come to influence government decision making, the authorities have placed the equities in the

hands of an independent appointed board of senior figures. The problem of how to liquidate the holdings remains to be resolved. It appears likely that it will have to be done gradually, and a residual may be retained, with appropriate safeguards, to support the government pension plan.

POLITICAL DEVELOPMENTS

As described in previous Task Force reports, the Basic Law that effectively serves as the Hong Kong Special Autonomous Region's constitution provides for a gradual increase in the number of members of the Legislative Council (LegCo) chosen by direct election. Twenty of the 60 members of the Council that took office in July 1998 were directly elected from geographic constituencies, with the remainder coming from "functional constituencies" with limited voter pools. Under the Basic Law, the number of directly elected members will increase to 24 in the year 2000 and 30 in 2004. In 2008, the Basic Law allows for (but does not require) the remaining 30 functional constituency seats to be converted to directly elected positions. Similarly, it would also permit, but not mandate, the direct election of the Chief Executive beginning in 2008.

Heartened by their strong showing in last year's election, political parties favoring more rapid movement toward elections by universal suffrage continue to call for the immediate amendment of the Basic Law to provide for direct election of the full LegCo and the Chief Executive at the end of their present terms of office (2000 and 2002 respectively). Chief Executive C.H. Tung and the Hong Kong government oppose such proposals, arguing that public consultations on the pace and scope of democratization should wait until after the 2000 LegCo election. Advocates of a faster move to direct elections across the board have not renewed their attempt to put the LegCo on the record in favor of their position since the defeat of an earlier motion last July.

Another point of contention is the relative power of the LegCo vis-a-vis the Chief Executive and government. Reformers argue that the Basic Law unduly restricts the LegCo's clout by barring it from introducing many types of legislation and by requiring concurrent majorities of directly and functionally elected members to pass certain bills. Defenders of the current arrangement cite Hong Kong's long tradition of "executive-led" colonial governance in which legislative authority was strictly limited. Senior civil servants, in particular, take a dim view of efforts to increase the LegCo's clout, claiming that the legislature simultaneously demands greater power while fleeing the responsibility that such power entails. Within the constraints under which it currently operates, the LegCo has successfully brought its influence to bear on the government's policies and actions, for example, by carrying out an independent inquiry into the chaotic opening of the new Chep Lap Kok airport. Unhappiness over the Government's handling of several legal and judicial matters also prompted the LegCo to mount a no confidence motion against the Secretary for Justice, Elsie Leung. The Government ultimately blocked the motion, but only after an intense lobbying campaign. In combination with Hong Kong's lively and free press, the LegCo's willingness to criticize and challenge government actions clearly has served to further public debate and increase transparency. Opinion surveys suggest, however, that the ongoing recession is taking a toll on the popularity of the Chief Executive, the Civil Service and the legislature, while the increasingly adversarial relationship between the Government and the LegCo remains a subject of widespread concern.

The Government also continued to receive for criticism for moving to reduce the opportunity for Hong Kong residents to choose their own representatives at lower public administration levels. Following its earlier decision to abolish the two largely elected Municipal Councils at the end of 1999, the Government in December announced plans to increase the percentage of appointed (versus elected) positions on Hong Kong's 18 District Boards (to be renamed District Councils) beginning in the year 2000. In March, the Government proposed to transfer the Municipal Council's responsibilities for arts and cultural services to a government appointed commission and a newly created department, leading to complaints that this would be a step toward centralized control of cultural affairs and the discouragement of non-mainstream views.

RULE OF LAW AND JUDICIAL INDEPENDENCE

A fair and independent judicial system is a critical element of international confidence in Hong Kong. The Basic Law provides for judicial independence and grants Hong Kong's courts jurisdiction over all cases except those involving "acts of state," such as defense and foreign affairs. A Court of Final Appeal, consisting of five justices, was created on July 1, 1997, to replace the United Kingdom's Privy Council as Hong Kong's highest court. Since the reversion to Chinese sovereignty, Hong Kong's judiciary generally has continued to operate independently and without taint of political interference.

The response by officials in Hong Kong and Beijing to a controversial January 29, 1999, decision by the Court of Final Appeal (CFA), however, for the first time raised substantial doubts about the Hong Kong judicial system's future independence. The case concerned the "right of abode," that is, the right of children of legal Hong Kong residents to join their parents in Hong Kong. The CFA decided upon a generous interpretation of the provisions of the Basic Law concerning the right of abode, granting the right to reside in Hong Kong to all children of legal Hong Kong residents, regardless of whether the children are legitimate or illegitimate or whether they were born before or after their parents attained legal resident status. In making this ruling, the Court clearly opened the door to the legal influx of a large number of persons now residing in China, where it is assumed many Hong Kong residents have children born inside or outside of wedlock. Just how many persons could qualify to reside in Hong Kong under the terms of the CFA decision, both now and in the future, remains a subject of considerable controversy. Critics charged the Government with needless alarmism about the numbers involved, questioning both the methodology of the estimates and the Government's assumption that the new residents will make heavy demands on welfare and other public services.

Much of the initial reaction to the CFA decision, however, focused not on the practical concern of a massive influx of new residents but on the question of the Court's authority vis-a-vis that of China's National People's Congress. The CFA sparked this furor by the somewhat gratuitous inclusion of language in its decision which asserted its right to rule on actions by China's National People's Congress that affected Hong Kong if such actions breach provisions of the Basic Law. In apparent response to this portion of the decision, four Chinese legal experts who had participated in the drafting of the Basic Law, together with an official from China's State Council, labeled the CFA ruling an attack on the authority of the National People's Congress and a serious breach of the "one country, two systems" principle. The Hong Kong

Government, in turn, reacted to the expressions of Chinese displeasure by dispatching the Justice Secretary to Beijing for urgent consultations. Subsequently, on February 24, the Government made an unprecedented request to the CFA for a "clarification" of the portion of the ruling which touched upon the CFA's authority to review acts of the National People's Congress (NPC) and its Standing Committee. Two days later, on February 26, the CFA complied, issuing a short statement of clarification in light of what it called "an exceptional situation." The clarification did not address the substance of the original January 29 ruling, but merely asserted that nothing in the decision questioned the authority of the NPC Standing Committee to make an interpretation of the Basic Law binding upon the Hong Kong courts. In its concluding sentence, the clarification stated "the court accepts that it cannot question the authority of the NPC or the Standing Committee to do any act which is in accordance with the provisions of the Basic Law and the procedure therein."

The Hong Kong Government's decision to request the clarification caused considerable criticism from some legal experts and from opposition party leaders, who charged that it served to undermine the autonomy of the Hong Kong's judicial system. The Chief Executive, on the other hand, defended the action as entirely in keeping with the "one country, two systems" concept, citing other legal scholars who argued the CFA's initial decision had made overreaching claims regarding the court's own authority.

In general, the consensus appeared to be that the CFA's "clarification" had succeeded in defusing the initial controversy in a way that did little or no harm to the underlying principle of rule of law in Hong Kong. With that question disposed of, however, attention increasingly turned to the practical dimension of the CFA decision. By the end of March, the Government's increasingly dire warnings about the potential consequence of large scale immigration and its refusal to draft procedures to implement the decision were drawing criticism from opponents who argued that it reflected disrespect for the authority of the courts. Opinion surveys consistently showed strong public opposition to the admission of large numbers of new residents under the ruling, but the question of whether or how to go about seeking to overturn or modify the terms of the CFA decision remained deeply controversial. The options under discussion included asking the CFA to review the substance of its original decision, requesting that the NPC amend the Basic Law, or seeking an interpretation of the existing Basic Law provisions by the NPC Standing Committee. While there are provisions for the latter two options in the Basic Law, critics charge it would be improper for the Hong Kong Government, rather than the courts, to request the Standing Committee to interpret the Basic Law, since that would amount to executive branch intervention to overturn a judicial decision. It is important to note that Chinese officials have shown no inclination to intervene unilaterally in the controversy over the practical aspects of the court decision, and have consistently expressed the hope that Hong Kong would find a way to solve the matter internally without involving Beijing.

Another emerging area of concern is that of the prosecution of individuals in China for crimes committed in Hong Kong. The subject rose to public attention with the conviction and execution in China of two persons, one a Hong Kong resident and the other a Chinese national. The Hong Kong resident was a notorious gangster who was convicted by the Chinese court of a number of crimes, committed both in Hong Kong and in China. The

Chinese national was convicted of crimes committed while visiting Hong Kong. Chinese law permits the prosecution of Chinese citizens for crimes committed outside of its jurisdiction, and both individuals had traveled to China voluntarily prior to being apprehended. Hong Kong authorities are admittedly reluctant to request the return of criminal suspects from China for fear of having to reciprocate when China makes similar requests. As a matter of policy, the Hong Kong government does not return suspected criminals wanted in China, largely due to public concern about China's application of the death penalty. (There is no death penalty in Hong Kong.) In contrast, Chinese officials have unilaterally returned persons wanted for crimes committed in Hong Kong, as long as they were not subject to criminal proceedings in China. Negotiations on a formal agreement on the rendition of criminal suspects between China and Hong Kong are said to be underway, but prospects for a successful conclusion are not clear.

INDIVIDUAL LIBERTIES

Elsewhere in the legal and judicial area, the people of Hong Kong continued to enjoy broad freedom of speech. Hong Kong's media airs a wide range of views and opinions, including those critical of the Hong Kong and Chinese governments, without overt interference from the authorities in Hong Kong or Beijing. Concerns regarding self-censorship appear to have eased somewhat since Hong Kong's July 1997 reversion. In its 1998 annual report, the Hong Kong Journalists Association concluded that "self-censorship may even have abated a little from its evident proliferation in the period leading up to the hand-over." The Government has yet to introduce proposed laws on treason, secession, sedition, and subversion, all of which are required under the Basic Law. In a legal case with implications for individual liberties, on March 23 Hong Kong's Court of Appeal threw out convictions under laws forbidding the burning or defacing of the Chinese and HKSAR flags, ruling that the laws unconstitutionally breached the Basic Law's protections of freedom of expression. The Hong Kong Government announced plans to appeal the case to the Court of Final Appeal. Also in March, a number of well known exiled Chinese dissidents applied for Hong Kong visas to attend an NGO organized conference in May on the future of democracy in China. Although several of the dissidents had visited Hong Kong prior to the reversion, it was unclear if the Government would approve the applications. (The Immigration Department subsequently announced the denial of the visas on April 21.)

TRADE AND EXPORT CONTROL ISSUES

Final 1998 trade statistics showed across the board drops in Hong Kong's imports (-11.5 percent), domestic exports (-10.9 percent), and re-exports (-6.9 percent). While much of this is a result of the Asian Financial Crisis, domestic exports are subject to a longer-term downward trend, having now fallen for three straight years and for five years out of the last six. The broader regional crisis has thus served to underscore Hong Kong's continuing dependence on entrepot trade between China and other nations, particularly the U.S. This makes Hong Kong highly vulnerable to disruptions in the U.S.-China trading relationship, and helps explain the nervousness with which Hong Kong officials view political or economic tensions between Beijing and Washington.

The continued widespread availability of pirated movie, audio, and software compact discs and trademark goods remains the most serious bilateral trade issue between the United States and Hong Kong. In January, the Department of Trade and Industry informed the Task Force Chairman that the

number of customs officers monitoring Intellectual Property Rights (IPR) enforcement had doubled since June 1997. A significant increase in raids, seizures and prosecutions at all levels, combined with the passage of new, more effective Prevention of Copyright Piracy ordinance, led the U.S. Trade Representative to remove Hong Kong from the Special 301 Watch List after an out-of-cycle review in February 1999. Despite this positive step, much more remains to be done to crack down on the trade in pirated products. Hong Kong's domestic recording and film industries have also begun to demand stricter enforcement, reflecting their growing awareness of the impact of piracy on their own profitability. This domestic support for tougher enforcement is likely to provide impetus for further improvements.

To combat money laundering, U.S. Government agencies continue to urge the Hong Kong Government to adopt mandatory financial transaction and foreign exchange reporting requirements and to explore options for discovering the illicit use of non-bank remittance centers. In early 1999, the Hong Kong Government began the legislative process to bring these centers under regulatory oversight, complete with mandatory reporting requirements. U.S. Government agencies also are urging that Hong Kong establish a mandatory minimum value currency entry and exit reporting requirement and penalties for illicit cross-border currency movements and bank deposits.

At the time of this report, there appeared to be no significant problems between Hong Kong and the United States Government in the area of export controls. Hong Kong continues to vigorously enforce what is widely viewed as a highly regarded trade control regime. The U.S. Government reports no evidence of Chinese interference in Hong Kong's export control decisions. Chinese officials have explicitly recognized that export control matters fall within the trade, rather than the foreign policy, ambit, thereby placing export controls within the Hong Kong Government's exclusive purview. Hong Kong's trade control regime is uniquely strict in a number of its features, including the requirement for import licenses as well as the more common export licenses. This enables Hong Kong authorities to track controlled commodities entering, as well as leaving the HKSAR. Hong Kong also refuses to issue re-export licenses for products unless it is sure that the original exporting country, including, of course, the United States, would export the product to the relevant end-user. In one 1998 case, U.S. Commerce Department agents notified Hong Kong Customs of the re-export of a high performance U.S. computer from Hong Kong to the Changsha Institute in China. Hong Kong Customs undertook an investigation, uncovering a total of eleven shipments by the same Hong Kong company that appeared to violate Hong Kong, if not U.S., export control laws. In February, 1999, Hong Kong officials advised a U.S. interagency export control delegation that it intended to prosecute the case on four counts of violating export control laws.

United States Department of Commerce officials continue to conduct regular pre-license and post-shipment inspections as part of the dual-use licensing process. In addition, U.S. Department of State and U.S. Customs officials carry out pre-license and post-shipment checks of munitions items under the "Blue Lantern" program. In all such cases, Hong Kong officials are neither informed of such checks nor are they involved in making them. Hong Kong's Customs and Excise Department conducts routine checks at entry and exit points and searches of vehicles and vessels to ensure that all strategic trade

shipments have the required government approval. One concern that has been raised regarding Hong Kong's export control regime has been the lack of customs inspection of Chinese People's Liberation Army (PLA) vehicles when they cross the border between Hong Kong and China. While this poses a potential vulnerability, U.S. Government agencies have no indication that the PLA is using this process to divert U.S. technology to China. The Task Force Chairman raised this as an area of concern with Hong Kong officials during his visit in January, 1999, and U.S. Government officials have raised it as well.

MACAU

Preparations continue for the reversion of Macau to Chinese sovereignty on December 20, 1999, after 442 years as a colony of Portugal. Like the much larger Hong Kong, Macau with its 414,000 residents, will become a Special Administrative Region under the "one country, two systems" formula for the next 50 years. As we noted in our previous quarterly report, the pace of preparation for the transition has been uneven and a number of key elements have yet to be resolved. One factor impeding progress appears to be Portugal's unhappiness with China's unilateral announcement in September 1998 that it planned to station PLA troops in Macau following the reversion. The Portuguese maintain that there is no room for such a garrison in cramped Macau, and that in previous negotiations on the joint declaration concerning Macau the Chinese had agreed no PLA presence was necessary.

On March 19, Portuguese President Jorge Sampaio met in Macau with Chinese Vice Premier Qian Qichen, but indicated that the troop question would be addressed in bilateral talks later in the year. Sampaio indicated it was possible negotiations could be prolonged up until the moment of the hand-over, and warned he might not attend the ceremony itself if a satisfactory agreement was not reached. Among other important matters still to be settled are the structure of Macau's court of final appeal; the eligibility of certain ethnically Chinese Macau residents to retain Portuguese nationality; legislation implementing Macau's accession to the International Covenant on Civil and Political Rights and the International Convention on Economic, Social, and Cultural Rights; and whether Portuguese will enjoy equal status with Chinese as Macau's official languages. In March, the initial steps were taken toward the nomination of the 200 person selection committee empowered to select Macau's first post-reversion Chief Executive before the end of May. (Subsequent to the date of this report, the selection committee was named during the April meeting of the Preparatory Committee of the Macau Special Administrative Region. On May 15, Edmund Ho, a 44 year-old banker and son of a well-known Macau community leader was selected to be the Chief Executive. He will take office on the date of Macau's reversion to Chinese sovereignty on December 20, 1999.)

While U.S. trade volume with Macau is relatively small, 40 percent of Macau's exports go to the United States. Eighty percent of Macau's total exports consist of textiles, and the U.S. Government has long been concerned about the potential that textiles produced elsewhere are being transhipped through Macau. U.S. Customs officials have visited Macau on a number of occasions to verify local production capacity, and continue to work with the Government of Macus to prevent such transhipment. Intellectual Property Right (IPR) piracy is another key concern, and Macau has been on USTR's Priority Watch List for IPR since April 1998. In response to U.S. suggestions that it intensify

and raise the profile of its IPR enforcement actions, the Government of Macau conducted a public destruction of seized pirated goods in March 1999. Other inadequacies in Macau's laws related to trade include a lack of effective legislation and enforcement mechanisms in the areas of money laundering and export controls. These are particularly troubling in view of widespread reports that North Korean operatives currently use Macau as a transit point for shipments of counterfeit U.S. currency.

Finally, problems remain with the overall climate of law and order. Gangland killings and drive-by shootings continue to negatively affect Macau's image and its tourism industry. Responsibility for the high levels of criminal activity have at times been a point of contention between China and Portugal. A failure to bring about improvements in this area could tempt more overt action by Beijing following Macau's reversion, with potentially harmful consequences to the autonomy of the Government of Macau.

CONCLUSION—STILL SO FAR, SO GOOD, WITH SOME NEW CONCERNS

In the months prior to Hong Kong's reversion to Chinese sovereignty in July 1997 many voiced concern that Beijing would rapidly move to undermine the relatively open political system and the free market economy of Hong Kong. There was great suspicion that the Chinese-appointed Provisional Legislature would undermine all of the democratic principles that Hong Kong had embraced. It was argued that, among other things, press freedom and freedom of assembly would be radically curtailed, and that the People's Liberation Army garrison would rapidly interject itself into Hong Kong affairs. Critics also warned that mainland financial interests would rapidly move to manipulate and control the then vibrant Hong Kong economy.

More than twenty months after the reversion, these fears have proven to be unfounded, up to this point. Hong Kong residents have retained the basic freedoms that they enjoyed under British rule. Although buffeted by the Asian Financial Crisis, the business community and the Government, appear united in their desire to keep Hong Kong's market as free as possible. The PLA troops have kept to their barracks, and Beijing has repeatedly displayed a disinclination to involve itself in Hong Kong's internal affairs. Although sharp differences have arisen within Hong Kong, particularly between the Government and opposition legislators to date informed observers see no evidence of any intent by China to violate the tenets of the Basic Law and the "one country, two systems" concept.

This is not to say that there is no cause for further concern. As we have noted in this report, the current crisis over the Court of Final Appeal's decision on the right of abode has the potential to undermine confidence in Hong Kong's future judicial autonomy and the rule of law. Cautious consideration of the long range implications of any action aimed at addressing the practical implications of the ruling is clearly appropriate. It would appear that improved communication between the Government and the Legislative Council could make a significant contribution to the achievement of a solution, as well as facilitating public consensus on Hong Kong's future political development. Trade related issues, including IPR piracy and money laundering, also deserve continued attention. Hong Kong's excellent export control system is intact, but attention to the potential loophole afforded by cross-border PLA vehicle movements is also needed. Congress should continue its practice of monitoring developments in these and other areas.

THE EXPORT ENHANCEMENT ACT

HON. DONALD A. MANZULLO

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. MANZULLO. Mr. Speaker, I was pleased to introduce on May 27th, along with Representatives BOB MENENDEZ, BEN GILMAN, SAM GEJDENSON, and 44 other Republican and Democrat Members of Congress the Export Enhancement Act of 1999.

We are all concerned about the recent anemic export performance of the United States and the ballooning U.S. trade deficit. While this legislation is not a cure-all for this problem, it provides one tool in the effort to promote U.S. exports abroad.

This legislation would reauthorize most commercial export promotion programs of the U.S. government, including the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA), and the export promotion functions of the International Trade Administration (ITA) at the Department of Commerce.

First, the legislation re-authorizes OPIC for four years and does not raise OPIC's liability ceiling. For 27 years, OPIC has been the U.S. government agency providing political risk insurance and financing for projects that help America compete abroad and promote stability and development in strategic countries and economies around the world.

OPIC's political risk insurance covers three main areas where the government has a proper role to influence—expropriation (loss of an investment due to nationalization or confiscation by a foreign government), currency convertibility (inability to remit profits from local currency to U.S. dollars); and political violence (loss of assets or income due to war, revolution or politically-motivated civil strife, terrorism or sabotage).

Since 1971, OPIC supported projects have generated \$58 billion in U.S. exports and created more than 237,000 American jobs. Over the last five years, OPIC supported projects will buy about \$1 billion worth of goods and services from Illinois suppliers, half of which are small firms, which will create over 3,100 jobs. Companies in the 16th District of Illinois like Coilcraft Inc. of Cary; Oak Industries of Crystal Lake; ESI Limited, the Nylint Corporation, the Barber-Coleman Company, and the Clinton Electronics Corporation of Rockford have all used and benefited from OPIC services in the past. And, unlike most government programs, OPIC operates totally on a user-fee self-sustaining basis at no cost to the taxpayer. OPIC is estimated to bring in \$204 million in revenue to the U.S. Treasury next year.

In response to Congressional input, OPIC has undertaken a series of initiatives since its last reauthorization. These include new initiatives in Africa, Central America, the Caribbean, and the Caspian Basin. In addition, OPIC has stepped up efforts to help more small businesses enter the global economy.

As Chairman of the Small Business Exports Subcommittee, I held a hearing last month examining the new small business outreach efforts by OPIC. OPIC is particularly important for small business exporters because unlike large companies, small business exporters cannot pack up their bags and relocate operations overseas to take advantage of foreign

equivalents to OPIC. There are 36 nations that have export credit insurance programs like OPIC. Just like OPIC, most of these nations have local content requirements. If forced to, larger U.S. multinational corporations can pick and choose from one of these other foreign export credit insurance programs. But the work and the jobs, then, are transferred overseas. Small business exporters do not have this luxury. OPIC is needed to maintain the competitive edge of these small business exporters in the United States.

Mr. Speaker, let me give you one concrete example from the hearing last month. Jane Dauffenbach, President of Aquarius Systems, located in North Prairie, Wisconsin, testified how foreign governments constantly try to undermine her small company's export prospects, even to the point of competing against free donations of similar equipment. Aquarius Systems manufactures aquatic weed harvesters. In Asia, Aquarius Systems lost a large equipment sale when the Canadian government gave a "free" aquatic weed harvester to the monarch of the country. In Kenya, Ms. Dauffenbach also testified about how the Japanese and the Israeli governments almost snatched another huge export sale from her company to clear water hyacinths clogging Lake Victoria. It was only because she had a World Bank contract, backed by OPIC political risk insurance, that she was able to win and complete the sale. She said, "(s)imply put, Aquarius Systems is not competing with foreign companies. We are competing with foreign governments . . . It is imperative that the financing and insurance programs from OPIC exist so that we have the necessary tools available to accomplish our goals."

Second, the legislation reaffirms the importance of Trade Development Agency (TDA). This small 43 person agency, which develops feasibility studies designing in American specifications so that U.S. exporters can win major infrastructure projects in developing countries and emerging economies later down the road, has generated \$12.3 billion in exports since its inception in 1981. Every \$1 in spending for TDA projects has led to the export of \$32 in U.S. goods and services overseas. The Export Enhancement Act requires, to the maximum extent possible, the imposition of "success fees" on companies who win export deals thanks to the groundwork laid by a feasibility study conducted by the TDA.

Third, the bill examines the three export promotion arms of International Trade Administration (ITA) at the Commerce Department—the U.S. & Foreign Commercial Service, which as 100 U.S. export assistance centers located throughout the United States and 141 posts located in 76 countries around the world; Trade Development, which monitors trade developments in key industries and supports the United States Trade Representative in key industrial sector trade negotiations; and Market Access and Compliance, which ensures that U.S. companies obtain full market compliance with existing trade agreements with various countries of the world. The Export Enhancement Act makes a few changes to these programs to make sure that the ITA keeps its focus on helping more small businesses export, particularly to underrepresented regions of the world, like Africa, in the most efficient way possible.

Finally, the Export Enhancement Act proposes to make a few changes to the Trade

Promotion Coordinating Committee (TPCC) to insure that the 19 federal agencies that are involved in trade promotion operate more in tandem together.

In conclusion, Mr. Speaker, I encourage my colleagues to support the Export Enhancement Act of 1999.

NATIONAL WEATHER SERVICE

HON. J.C. WATTS, JR.

OF OKLAHOMA

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Mr. WATTS of Oklahoma. Mr. Speaker, I stand before you today to honor the work of the National Weather Service of the National Oceanic and Atmospheric Administration (NOAA). The National Weather Service is essential to the safety of the American people by providing weather, water and climate forecasts and warnings for protection of life and property. We saw that service first-hand in Oklahoma just a short two weeks ago.

Without the warnings by the National Weather Service, the number of personal injury and deaths would undoubtedly have been higher. Warnings by the National Weather Service prompted the closure of roads and highways that lead into the path of the slow-moving tornado, saving an untold number of lives. I have heard countless stories of people who, at the prompting of the National Weather Service warnings, took shelter in the center of their homes or fled their homes for the safety of a storm shelter and survived, while their homes were destroyed. I and numerous other Oklahomans are indebted to the service of the National Weather Service.

Yet the ability the Service demonstrated was not an accident; they have been preparing for times such as this for many years, through planning, training, and research and development. New technologies pioneered by NOAA research allowed warnings to be issued up to 30 minutes before the tornadoes struck in Oklahoma. Contrast this with the 6 minute average lead time before the technology was available. Partnerships forged between the National Weather Service, media, law enforcement officials, and emergency managers, and their seamless response to this disaster was critical to the successful warning process that saved countless lives in Oklahoma.

I applaud the work of the National Weather Service, Mr. Speaker, and support the continued generous funding of the Service through this appropriations process.

A TRIBUTE TO THE BLACK CUBAN FOUNDATION

HON. ILEANA ROS-LEHTINEN

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Monday, June 7, 1999

Ms. ROS-LEHTINEN. Mr. Speaker, I wish to take this opportunity to commend the Black Cuban Foundation for its decade of service to the Afro-Cuban community in exile. Over the past ten years, it has pursued a goal of improving relations between Afro-Cubans and our varied communities.

The Black Cuban Foundation was founded on July 30th, 1989 and promptly began to promote its important and unique role in Cuban