

Statement Submitted by  
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On  
China's Membership  
In the  
World Trade Organization  
To the Committee on Ways and Means of the  
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Mr. Chairman, thank you for the opportunity to testify on the issue of China's membership in the World Trade Organization (WTO). As a CEO of an American company with operations worldwide, I can think of no more important geo-economic policy challenge facing the United States today.

How the Congress handles this issue will affect U.S. interests for decades to come. I am convinced that a positive vote to extend Permanent Normal Trade Relations (PNTR) status to China will help build a legacy that will serve U.S. economic and security interests in Asia and the world.

China is at an extraordinary moment in her history. Over the last 25 years, China has built stronger economic and diplomatic ties with her Asian neighbors and the West, and is making an effort to become an increasingly integrated member of the global community. There can be little doubt that China is rising to great power status.

The broad policy question before the Congress today is whether China should be encouraged to further integrate itself into the community of nations, or whether it is ostracized and isolated, unable to address the aspirations

of its 1.3 billion citizens, and becomes an unstable force in world affairs. Regardless of what we do, China will continue to expand its relations with other nations. Our national interest is served by continuing to build our relations with China. Otherwise, we just isolate ourselves.

The more specific question Congress must answer is whether to allow the United States to enjoy the dramatic market opening benefits China has offered by making Normal Trade Relations status for China permanent. For twenty years, Congress has renewed this status annually because it benefits both China and the United States.

### **AIG's History in China**

American International Group, Inc. (AIG) has a unique history. We were founded by an American entrepreneur in 1919 in Shanghai, China. AIG is the only major American corporation that traces its roots directly to China. AIG was also the first foreign insurer to return to China. We were granted a license in 1992 to operate a wholly owned, non-life and life insurance business in Shanghai. AIG's China operations today span a range of insurance, financial services and investment activities, with offices in

Shanghai, Guangzhou, Foshan and Shenzhen. We employ 1,100 Chinese citizens, and have an agency force of nearly 10,000.

AIG's life insurance company in China, American International Assurance Company, Ltd. (AIA), is the largest life insurer covering the Asian region. When it was licensed in China, AIA continued its longstanding tradition of innovation by introducing the agency distribution system to the Chinese life insurance industry. The system is now widely employed by local insurance companies as a principal distribution channel.

In addition, AIA pioneered the introduction of professional life insurance operations, including management information systems, professional underwriting and world-class service standards. For example, we were the first to introduce the auto pay system for premium payments, the first to develop a bank draft system for insurance company payments, and the first to introduce professional examinations to help educate and train insurance company staff in China. In fact, over 6,000 agents currently employed by the domestic insurance industry were trained by AIA.

AIG's presence in China provides a good example of how expanded foreign trade and investment can be a win-win result for both countries.

In our case, the introduction of new management practices, training, technology, and marketing techniques has resulted in a cadre of highly motivated and skilled Chinese personnel whose lives today bear no resemblance to what existed only a few years ago. They have readily adopted Western "best business practices," enjoy better living conditions, and a wider range of freedoms to travel and to spend their growing financial resources than have any of their countrymen during China's 5,000 year history.

While AIG's history is unique, the experiences of thousands of other U.S. and foreign-owned companies doing business in China today strongly suggest that similar, positive results are occurring.

Simply stated, economic progress and expanded trade opportunities in China are helping to create a new and prosperous middle class while enhancing the quality of life for hundreds of millions of people.

### The Benefits of China's Entry into the WTO

I believe AIG's China story provides lessons for the future ramifications of China's entry into the WTO.

First, if China joins the WTO on the commercially attractive terms so ably negotiated for U.S. manufacturing, agricultural and services industries by Ambassador Barshefsky, considerable new employment opportunities will be created for U.S. workers. U.S. competitiveness has never been stronger and our businesses are positioned well to generate meaningful results for the U.S. economy.

Secondly, the commitments China has made to the United States as part of its WTO accession package are striking in breadth and scope. In our industry, for example, China has agreed to:

- Open the entire insurance market within three years to all foreign companies by expanding from the current, limited access;
- Permanently grandfather existing operations and eliminate all restrictions on internal branching;
- Open up to foreign ownership both non-life and life insurance (including health and pension plans), and

eliminate existing restrictions on the placement of reinsurance.

The U.S. insurance industry has been poised for many years to expand into China. Limitations that have confronted us geographically, and by product line, will be almost completely eliminated, practically overnight. In fact, one of the great challenges facing China's regulators will be to manage the rapid opening of its market, given the many foreign companies that will be allowed to do business there so suddenly. It is in our interest that China manage this transition successfully.

Over time, the presence of U.S. and other foreign insurers will bring to China the modern management tools necessary to develop a competitive, world class insurance industry. This will give China the ability to more efficiently manage risks throughout its economy and society. And, with it will come the benefits of choice, lower prices and product innovations to meet the needs of Chinese consumers.

Because of the long-term liabilities involved, life insurance is an especially effective stimulus to long-term investments -- investments that, by their very nature

(i.e., bonds, housing, and infrastructure), help in the national building process.

It is entirely possible that China will become the largest insurance market in the world in the not-too-distant future. Such a market holds forth tangible economic benefits to the United States. Over time, successful American insurers in China will generate new employment opportunities for support personnel in their U.S. corporate headquarters. In addition, they will transfer dividend income to their U.S. shareholders, generate tax revenues for the U.S. Treasury, and will make investments in bonds and other U.S. financial instruments.

Despite these benefits, I am aware of the various arguments made to block China's WTO membership or to condition its entry. Some of these arguments will be made because China and the U.S. have different values and different political systems. We do, and we probably always will. But for those who have not had the benefit of seeing firsthand the remarkable changes that have occurred over the last 25 years in China, it may be difficult to appreciate how these values are converging. Bringing China into the WTO will accelerate the process of helping to understand the reason

for those differences -- differences that can sometimes lead to mutual distrust, hostility, or even conflict.

Moreover, we should not allow our trade relations to become hostage to our differences. The U.S. has differences in values and culture with many countries. What is important is that we always try to work out our differences in a peaceful way.

### **Understanding China's Past**

Over many years, I have had occasion to observe firsthand post-war economic developments in many countries around the world. I first visited China in 1975, and have been back just about every year since. Compared with other countries, the positive results of China's economic growth and development are nothing short of miraculous. Continued progress can be expected for the foreseeable future, particularly if China allows even more open competition and trade.

We should not forget that it was not many years ago that, with respect to China, the U.S. had no diplomatic relations, no meaningful trade, no cultural exchanges, and

certainly no military cooperation. Just suspicion and isolation, and a cold peace.

China's interests in Asia were often in conflict with our own. The consequences for America were costly in political, economic and human terms. The Korean conflict claimed over 50,000 American lives, and China supported insurgency movements throughout the region, and provided moral and logistical support for North Vietnam to prolong that tragic war.

During the period leading up to the Communist revolution, and for much of her modern history, China was subjugated, humiliated and exploited by foreign powers. The Opium Wars, the partitioning of Shanghai, and Japan's military occupation are examples. Understanding China's history helps explain China's preoccupation today with stability, following hundreds of years of internal turmoil, famine and bloodshed. Understanding China's history also helps us appreciate and interpret China's current needs and interests. Given where China has been, feeding and clothing such a massive population represents tremendous progress.

In this context, China's WTO commitments are all the more significant. Beyond insurance, China has agreed to open up its agricultural markets, its distribution systems, significantly lower its tariffs, and has offered increased market access and foreign ownership for financial services, telecommunications and automobile companies, to name a few.

Once implemented, China's overall WTO concessions will far surpass the level of market openness found today in many other developed and developing WTO member countries.

Importantly, the package also represents a higher and wider level of market liberalization toward which both existing and prospective WTO members should now aspire.

These concessions are entirely one-way in nature (with no reciprocal concessions by the U.S.). They are the result of decisions the Chinese leadership has made to use WTO membership to push ahead with domestic economic reforms and open the economy to worldwide competition.

The Chinese leadership is taking a calculated risk that the U.S. will help, and not exploit, their efforts to promote competition with vested interests in their own country.

Denying China entry into the WTO would not only engender

bitterness and resentment, it would also undercut the gamble China's leaders have made to modernize their economy.

### U.S. and China: Shared Interests

The basis for any long-term, stable relationship between the U.S. and China, as with any two countries, must be mutual respect and understanding, coupled with a reasonable evaluation of what is realistic and achievable. This relationship should promote U.S. national interests in Asia. I would suggest that among the most important U.S. foreign policy objectives are:

- Promoting stability in Asia, including such unstable areas as the Korean Peninsula and the Taiwan Strait;
- Limiting the proliferation of weapons of mass destruction;
- Encouraging the continued expansion of open electoral systems where the views of individual citizens can be expressed, and;
- Expanding trade, investment and access to markets based on transparent legal structures and the rule of law.

To pursue these interests, we need a cooperative China, one that accepts international obligations by integrating into the rules-based economic and security arrangements that govern global conduct.

It is clear that there are a broad number of areas where the U.S. and China have common interests. We both want a reliable partner. We have a common interest in a growing and stable

Asia. We both want to avoid tensions in Asia's potential trouble spots. Our recent cooperation on Korea, for example, has been more positive than many people appreciate. Our economies complement each other, and trade has expanded some 400 percent over the last ten years, with a significant number of high-wage U.S. jobs dependent on our exports to China.

#### Why PNTR Should Be Permanent

Some have argued that the annual ritual of granting normal trade relations (NTR) to China has provided useful leverage in affecting Chinese behavior. There is little evidence to support this claim. To its credit, each year since 1980, the Congress has extended NTR to China. After vigorous debate, successive Congresses have concluded that withdrawing NTR would be disruptive to the relationship and to our own interests in seeing China play a more constructive role in the world. Moreover, each year Congress has recognized that denial of NTR would be devastating to Taiwan, as well as to Hong Kong, and that the U.S. would simply be rewarding our competitors in China.

Under WTO procedures, all WTO members are required to extend unconditional NTR when China joins the WTO. With over 130 other WTO members, the U.S. has supported the principle of non-discrimination, which rests at the heart of the multilateral trading system. Any benefits granted to a WTO member must be granted unconditionally (i. e., permanently) to all other members.

Were China to join the WTO without receiving permanent NTR from the United States, China would have the right, under WTO rules, to deny to U.S. workers, businesses and agriculture the extraordinary benefits the U.S. obtained as part of China's WTO package. Instead, we would relinquish to French, German, Japanese and other competitors the concessions that are properly due the U.S. We are not doing our firms and workers any favor by denying them what is clearly in their best self interest.

This is not to suggest that the U.S. should refrain from discussing differences we have with China over human liberties, their form of government, freedom of speech, assembly and the press. But, we should do so in other, more appropriate, fora. Denying China PNTR based on our dissatisfaction with progress in these areas will not make China share our values or adopt our systems. In fact, as has been demonstrated in many countries, the expansion of trade will lesson our differences over time.

Some have argued that China should not be allowed to enter the WTO now, because it cannot be trusted to live up to its trade agreements. The commitments China has made to enter the WTO, however, will be subjected, for the first time, to the WTO's dispute settlement mechanism. Trade disputes will no longer be governed by bilateral frameworks alone. Disputes will be resolved according to standards China has accepted and, more importantly, for the first time, the overall world trading community will have the right and power to enforce them.

Therefore, the obligations China has made will be exposed to much greater transparency and a multilateral, rules-based regime as compared with those negotiated with individual countries in the past.

#### Conclusion

In conclusion, I would respectfully urge the Congress to support China's entry into the WTO and to grant Permanent NTR to China as soon as possible. Your decision should be based on the primary objective of promoting a sound U.S. foreign policy. If you agree that it is in our geo-economic interest to engage China on a broad strategic basis, we should not let our differences on individual issues, as important as they may be, distort the opportunity to accomplish our broad objectives.

The immediate post World War II experience of the United States is instructive in this respect. The U.S. wisely chose to expand trade ties with our former adversaries. The results were more prosperous and free allies. China's entry into the WTO can lead to the same result.

Moreover, the past 25 years demonstrates that there is much good to come from a positive relationship with China. We have everything to lose, alternatively, by pushing China into a hostile role.

It is highly unlikely that the U.S. could have a realistic policy for Asia if it excludes China. If our relations with

China were unsettled, it would be very difficult for other Asian countries to openly side with the U.S. One only has to look at a map to understand why. The U.S. would be the loser. I sincerely hope that we never allow our relationship with China to reach a point where that choice has to be made.

By joining the WTO, China deepens its stake in the community of nations and the U.S. promotes its national interests of peace and stability. When future generations look back on this period in our history, I am confident Congress will be judged as having made the right decision for the American people.