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**On Behalf of The Business Roundtable,**  
**The American Chamber of Commerce in Hong Kong, and Caterpillar Inc.**  
**Testimony before the Senate Commerce Committee**  
**On Permanent Normalized Trade Relations with China**  
**and China's Accession to the WTO**  
**April 11, 2000**

Good morning Chairman McCain and members of the Committee. It is my privilege to testify this morning regarding the benefits of China's accession to the World Trade Organization (WTO) and the necessity of granting permanent Normal Trade Relations (PNTR) status to China.

My name is Dick Kahler, and I am President of Caterpillar China. Caterpillar is a long-active member of The Business Roundtable and of the American Chamber of Commerce in Hong Kong, which I chair this year. Caterpillar is a \$20 billion company; our overseas sales account for 50 percent of our revenue; and we consistently rank among America's top exporters. Caterpillar sells and operates in most countries of the world and has been active in China since the early 1970s.

Today I also represent The Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States. The chief executives are committed to advocating public policies that foster vigorous economic growth; a dynamic global economy; and a well-trained and productive U.S. workforce essential for future competitiveness. They also strongly support China's accession to the WTO and PNTR.

Finally, I also represent the American Chamber of Commerce in Hong Kong, one of the largest (with some 2500 members) in the world. AmCham's top policy priority for 2000 is Congressional approval of PNTR for China.

**I. The Commercial Benefits of the WTO Deal Are Comprehensive**

This year Caterpillar's business in China will approach a third of a billion dollars in revenue—a substantial portion of which is direct exports from the United States. Those exports include diesel engines manufactured in Indiana, turbine generators produced in California, large mining trucks manufactured in Illinois, and components and parts sourced from approximately 11,000 direct and indirect suppliers from all over the United States.

Caterpillar companies operate six manufacturing ventures in China, primarily to serve the Chinese market. And we sell our product through a combination of Cat-owned and independently-owned dealers in China.

Let me give you one example of our growth trend: in 1996 and 1997 combined, we sold about

85 hydraulic excavators in China. Last month alone, we sold almost 150 hydraulic excavators there, and this month we should deliver more than 200! Our dollar sales this year for Caterpillar and its affiliated companies will be roughly three times what they were in 1994. We are deeply committed to the customers we serve in China and to the local communities in which we operate.

Our investments in China have made us better known and respected there. And because of that we have created an opportunity for an increase in goods exported from the United States to China. We will have a record year this year, I project. We are not losing U.S. jobs—we are gaining U.S. jobs. And the market opening promised in the U.S.-China WTO deal will move that further forward.

You know the details of the WTO deal, based on input from Secretary Daley, Ambassador Barshefsky, and others. But let me bring them down to the micro-economic level, where most of us can understand them best.

- A. The regulatory environment for the distribution of goods will change dramatically based on China's commitments in the U.S.-China trade package. In countries with open trading climates, Caterpillar's dealer-driven sales and product support-driven approach to the market are almost universally acknowledged to be the best in our industry. But in China's heavily regulated and restricted environment today, our dealers cannot gain their natural advantage. They must operate through a complex and often convoluted series of regulatory "workarounds" to be able to serve our customers.

By contrast, under the U.S.-China WTO deal, within three years, our dealers will be able to operate in China as they do elsewhere in the world. I can offer very strong assurance that in that more open environment, Caterpillar, and companies like us, will prosper. Give us the chance—let us show you what we can do!

- A. China's domestic earthmoving and construction industry sector is a jumbled array of highly inefficient state-owned enterprises, many of which are surviving and dominating the local market place only because companies like Caterpillar and our major worldwide competitors are kept out by tariff and non-tariff barriers for goods and services. Chinese leaders know these bloated industries must be rationalized; and companies like mine know we cannot gain full advantage of the Chinese market opportunity until that rationalization is complete.

China's accession to the WTO and the concurrent opening of the Chinese market will do more than any of China's domestic policies and the annual NTR debate to drive the rationalization of Chinese industry. When that happens, American companies that offer world-class products at competitive prices will have a great opportunity for growth in China. Give us the chance!

- A. The most obvious advantage of the WTO deal is reduction of tariffs and removal of other barriers to imports. These changes will make us more price competitive and provide greater market access potential. We will sell more products and services in this more open environment—give us a chance!

I do not mean to suggest that all this will happen quickly or easily. Six-plus years of working in China have taught me better. I predict that, even after PNTR and China's WTO accession, we will still face a domestic sourcing bias, I know we will still face extreme price competition, and I regret that we will still face business practice and business channel difficulties. But China's WTO entry provides a new and more effective process for breaking down these barriers.

If Congress grants PNTR to China, American businesses and their workers will benefit from the concessions discussed above and from the corresponding break down of trade barriers. If Congress rejects PNTR, however, American businesses and their workers will lose almost all of those concessions and our foreign competitors will gain an unearned advantage in the Chinese market.

#### **I. Enforcement Is Essential**

I understand that there is some concern regarding China's fulfillment of the obligations it accepts under the WTO. I accept that concern as valid. But I also accept as valid the assurances by such people as Secretary Daley and Ambassador Barshefsky that the monitoring and compliance programs used by our government will be very useful and that the WTO dispute settlement mechanisms will effectively protect our interests.

In my view, China has no alternative but to fulfill its commitments. It simply cannot accomplish its stated economic development goals unless it opens its economy to international competition. The breadth of commitments China has made in the WTO package is impressive. They reflect a vision of the future China that is more in sync with our Western economic thinking. They need to comply with their WTO obligations to get there.

It will not be easy! Providing U.S. and other foreign companies "national treatment" goes against decades of past policies. So does opening up distribution and the service sectors. But with the Chinese leadership committed to progress, I believe that they will take enforcement seriously.

#### **I. Engagement Is Critical**

Critics of the position I present in favor of China's accession to the WTO believe that we can exert more pressure by isolating the country than by engaging it. I contend they have not seen the good that we are doing by our presence there. Let me share some examples with you:

All of Caterpillar's operations in China operate in accord with Caterpillar's worldwide Code of Business Conduct. That key presentation of Caterpillar's value structure is translated into the Mandarin language and all employees know that it is a foundation document for

us.

In our manufacturing operations in China, we are applying world-class environmental-control technology to assure that we deal effectively with air, water, and waste treatment. We are following the highest standards, and by doing so, we are showing the Chinese people and other Chinese-based industry our respect for the environment.

In 1999, Caterpillar's factory in the city of Xuzhou in Jiangsu Province had the best safety record of any plant in the entire Caterpillar family worldwide. We teach and stress safety in a country whose business culture is less committed to safety than we are.

In the same city, Xuzhou, Caterpillar fully funds and arranges U.S. teachers for the "Caterpillar English Language Training Center." This is a program directed at community support, not corporate development. Through this center, we are bringing an important new skill-set to some of the people in this Chinese city.

In the town of Er Li Ban in southern Shanxi Province, one of the most isolated and economically depressed areas of China, our employees come to work in a newly developing foundry where they are attracted, more than anything else, by good jobs in an environment that emphasizes training, which gives them hope about the future—for them, their families, and their communities.

I am not simply "bragging" about Caterpillar's commitments in China. I am telling you that by our presence we (and many other U.S. companies like us) are bringing U.S. values to China. We are not imposing those values; rather, we are showing our Chinese partners, employees, and government officials the benefits of our values-oriented business culture.

Caterpillar is not alone in making these kinds of commitments. A number of my colleagues in Hong Kong are involved in programs to improve the human condition in China. Many orphanages, for example, see the generosity of Americans living and working in China. By this presence, we gain their respect and they gain a greater appreciation of American leadership, values, and goodwill.

A report recently released by The Business Roundtable, entitled "***Corporate Social Responsibility in China: Practices by U.S. Companies,***" effectively documents that U.S. companies do more than sell goods in China. It shows that U.S. business is a catalyst for positive change. We want to continue that role at the same time that we build our businesses to participate in the longer-term growth of the Chinese market.

"Engagement" with China is an objective that has been part of U.S. foreign policy for some time, through both Republican and Democratic administrations. The reason: it works.

Engagement does not mean that we endorse all of China's policies or that we give China any special treatment. And my endorsement of stronger economic ties does not mean that I am an apologist for the things that are wrong with the Chinese system. I simply believe we will do

more good working with China as part of the world economic system than we could by isolating and lecturing it as an outsider.

The WTO deal, which would bring China into the international trading system, would require it to follow the international “rules,” rather than setting its own. Opponents of PNTR would hold us back from realizing the potential benefits of engagement.

## **Conclusion**

I would like to end my discussion with you with an anecdote. A few weeks ago, one U.S. Senator asked me what he would see if he walked into a Caterpillar facility in China, with special reference to labor and environmental conditions. I told him: you would see a world-class manufacturing facility, managed by employees trained in Caterpillar values, and operating under our worldwide Code of Business Conduct; you would find a commitment to employee training that is equal to any Caterpillar facility in the world; you would find environmental control that matches Caterpillar’s worldwide standards and far exceeds the Chinese norm; you would find Cat-funded education, arts, and social programs in the community; and you would find an atmosphere of cooperation and optimism about the future.

My goal is to see the U.S. Congress share my optimism about the future of China, about the future for U.S. business there, and about our ability to help bring some U.S. values, disciplines, and expectations to the forefront. If you share that optimism, you will support PNTR for China, because by doing so you will create the environment in which we can do that job. Let us get on with it!

Thank you.