Most-Favored-Nation Status for the People's Republic of China: A United States Policy Dilemma

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This research paper examines the issue of whether or not the US should continue to extend most-favored-nation (MFN) status to the People's Republic of China (PRC). MFN is a status given to US trading partners that allows goods imported from these MFN countries to enjoy nondiscriminatory treatment—that is, freedom from prohibitive discriminatory tariffs that would greatly reduce trading opportunities with the US. Since the 1989 Tiananmen Square incident in which the PRC suppressed a student pro-democracy movement, there has been heated debate in this country—particularly in the Congress—as to whether or not the US should continue to extend MFN status to the PRC. There are essentially three distinct positions—withdraw MFN, extend MFN with conditions, and extend MFN without conditions as in the past. This paper presents the pros and cons of the arguments supporting each of these positions, analyzes them in terms of US national interests, draws a conclusion, and formulates a recommendation for US action.
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CHAPTER 1

INTRODUCTION

Most-favored-nation (MFN) status significantly affects bilateral relations between the US and the People's Republic of China (PRC), especially because of its impact on trade. So, what is MFN?

MFN is a status given to US trading partners that allows goods imported from these MFN countries to enjoy nondiscriminatory treatment—that is, freedom from prohibitive discriminatory tariffs that would greatly reduce trading opportunities. For the PRC, this means that goods exported to the US would get the same treatment as those of about 180 other countries that enjoy this status. MFN status, therefore, enhances a country's ability to export goods to the US.

The US first granted MFN to the PRC in 1980, and has since renewed it annually under provisions of the Trade Act of 1974. This act authorizes the President:

...to waive the freedom of emigration requirement of that title [Title IV] and grant nondiscriminatory, most-favored-nation [MFN] status to a nonmarket economy country, if he determines that so doing will substantially promote the objectives of freedom of emigration. (1)

To renew MFN each year, the President recommends—to the Congress—extension of his authority to waive emigration requirements. If the Congress fails to respond to the President's recommendation in a timely manner, MFN status automatically extends for the following year. However, if the Congress passes a joint resolution disapproving extension of waiver authority and
overrides the likely presidential veto, MFN immediately termi-
nates.

Since the 1989 Tiananmen Square incident in which the PRC
suppressed a student pro-democracy movement, there has been
heated debate in this country--particularly in the Congress--as
to whether or not the US should continue to extend MFN status to
the PRC. There are essentially three distinct positions--with-
draw MFN, extend MFN with conditions, and extend MFN without
conditions as in the past. Representative Stephen J. Solarz,
Chairman of the House Subcommittee on Asian and Pacific Affairs,
describes the controversy as follows:

The issue of MFN and China involves a particularly
complex set of questions. How can the United States
best promote human rights and democratization in
China, as well as a range of strategic and political
interests? Where specifically does MFN fit into the
calculus? Do we have a better chance of promoting
our multiple interests by revoking MFN, by renewing
it, or by imposing some sort of conditionality?(2)
WITHDRAW MFN STATUS FROM THE PRC

Proponents Want to Penalize the PRC.

The argument for withdrawal of MFN status from the PRC centers around PRC actions in the areas of human rights, trade/intellectual property rights, and arms sales/transfer of nuclear technology. The following statement of Rudolph A. Oswald, Director, Department of Economic Research, AFL-CIO, reflects the strong sentiment for withdrawal of MFN:

We strongly believe that this privilege should be revoked at the earliest possible moment because it is harmful to both China and the United States. Our objections to MFN are many—about 20 in number. Our central concern, however, is that MFN status contributes directly to the Chinese government's brutal repression of China's working men, women, and children.(3)

Proponents of withdrawal see MFN as an instrument to penalize the PRC—to send them a strong, unambiguous signal—for past and current behavior as outlined below:

- Violation of Human Rights. For example, the PRC continues to commit violations of internationally recognized human rights to include cruel, inhuman, or degrading treatment, prolonged detention without charges and trials, and abduction and clandestine detention of individuals.(4) Asia Watch, a US human rights group, reports that thousands of activists, who were reported by the official PRC media as being detained during and after the Tiananmen Square incident, have yet to be accounted for
and are feared to be still behind bars two years later. (5) A former labor camp prisoner, Mr. Harry Wu, testified before Congress of the deplorable conditions within Chinese labor camps that exploit both convicted criminals and dissidents alike. (6) In addition, intimidation and repression continue in Tibet. (7) It's not surprising, then, that Mr. Dave Keegan, China Desk, Department of State, believes that human rights has been the most contentious issue in our relationship with the PRC during the past several years. (8)

○ Unfair Trade Practices. The PRC has steadily increased tariff and nontariff barriers (e.g., quantitative restrictions, unpublished regulations) to imports, thereby denying US goods fair access to the Chinese domestic market. (9) This has contributed to an increasing trade imbalance between the two countries—now $15 billion in favor of the PRC. (10) In addition, the PRC has been accused of quota and tariff cheating. US Customs agents report that in 1990, they "caught" the PRC illegally shipping about $2 billion in clothing into the US. The PRC allegedly mislabelled the goods to make it appear that the shipments originated in other countries, thus evading US textile quota limits. (11) The PRC has also been accused of tariff cheating, as they have allegedly exported goods to the US under descriptions that would qualify them for lower tariffs. (12) Still another allegation is that the PRC has used forced prison labor to produce goods for export to the US—a clear violation of US law, specifically the Tariff Act of 1930, 19 U.S.C 1307. (13)
The PRC has also condoned the piracy of copyrighted computer software developed and manufactured in the US. As a result, last year, US manufacturers lost an estimated $400 million.\(^{(14)}\) Pharmaceuticals have also been pirated, costing the US millions of dollars in lost export opportunities.\(^{(15)}\)

- **Arms Sales/Weapons Technology Transfer.** The PRC has engaged in the sale of arms, to include nuclear-capable missiles and/or support equipment, to various countries such as Syria, Pakistan, and Iran. The Far Eastern Economic Review reports that the Chinese have recently delivered to Syria Transporter/Erector/Launcher (TELS) equipment for the M-9 missile—a mobile, nuclear-capable weapon.\(^{(16)}\) The PRC itself indicates that it has transferred to Pakistan M-11 missiles—also mobile, nuclear-capable, short-range weapons.\(^{(17)}\) The Arab media claims that the PRC will make both the M-9 and M-11 missiles in Iran.\(^{(18)}\) In addition, according to the Washington Post, the US intelligence community reports that China has sold nuclear weapons equipment—calutron equipment—to Iran which would assist that country in producing fissile material (highly enriched uranium) for nuclear weapons production.\(^{(19)}\) Information also indicates that the PRC has sold a nuclear reactor to Algeria.\(^{(20)}\) Moreover, arms sales/weapons technology transfer is a sensitive issue within the PRC, as many of the firms involved in this business are operated for profit by members of the PRC's ruling clans (relatives of the Communist Party senior strata).\(^{(21)}\)
Opponents See Negative Impacts for Both the US and the PRC

On the other hand, the argument against withdrawal of MFN from the PRC is that termination of MFN will not affect any of the above actions, but will have a negative impact on the economic growth of the PRC. This will play into the hands of conservative, hardline elements who seek to reverse—back to central planning—recently initiated modernization reforms. They could now blame foreigners for the PRC's economic problems.

Withdrawal of MFN would hurt the PRC's economy by moving US imports from a MFN tariff rate category to a non-MFN category. This would significantly increase tariffs assessed to PRC goods. For example, the average tariff rate for the top twenty-five US imports from the PRC—that collectively account for over one-third ($5.238 billion of the PRC's exports to the US)—would increase from 8.35% to 47.48%. Dollarwise, this would mean an increase in duties collected from $0.437 billion to $2.487 billion, an increase of $2.05 billion or 469%—a serious setback for PRC exports to the US and the overall PRC economy. See Table 1 for more detailed information.

Withdrawal of MFN—and the resultant deterioration of the US export market—would devastate the semi-private sector in the southern PRC, particularly Guangdong, as this region manufactures almost 50% of the PRC's exports to the US. It's estimated that about 2 million workers in export industries would lose their jobs.

Withdrawal of MFN would also adversely affect Hong Kong through which the PRC transships almost 70% of its exports to the
<table>
<thead>
<tr>
<th>Commodity Number</th>
<th>Item</th>
<th>Value</th>
<th>MFN Tariffs</th>
<th>Non-MFN Tariffs</th>
<th>1989 Collected Duties</th>
<th>Non-MFN Equivalent Duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>27090020</td>
<td>Petroleum, oils and oils from bituminous minerals</td>
<td>$635,153</td>
<td>10.5cts/bbl</td>
<td>21cts/bbl</td>
<td>$3,288</td>
<td>$6,756</td>
</tr>
<tr>
<td>64029915</td>
<td>Footwear not elsewhere indicated; uppers over 90% rubber or plastic</td>
<td>$582,750</td>
<td>6.00%</td>
<td>35.00%</td>
<td>$34,965</td>
<td>$203,963</td>
</tr>
<tr>
<td>61109000</td>
<td>Sweaters, pullovers, sweatshirts, vests and similar articles; other textile materials</td>
<td>$527,258</td>
<td>6.00%</td>
<td>60.00%</td>
<td>$31,636</td>
<td>$316,360</td>
</tr>
<tr>
<td>95039060</td>
<td>Other toys; without spring mechanisms</td>
<td>$377,919</td>
<td>6.80%</td>
<td>70.00%</td>
<td>$25,698</td>
<td>$264,543</td>
</tr>
<tr>
<td>64039990</td>
<td>Nonwelt footwear; outer soles of rubber or plastic, leather upper, $2.50+pair value</td>
<td>$246,501</td>
<td>10.00%</td>
<td>20.00%</td>
<td>$24,850</td>
<td>$49,300</td>
</tr>
<tr>
<td>85171000</td>
<td>Telephone sets</td>
<td>$231,760</td>
<td>8.50%</td>
<td>35.00%</td>
<td>$19,700</td>
<td>$81,116</td>
</tr>
<tr>
<td>95034110</td>
<td>Stuffed toys representing animals or non-human creatures</td>
<td>$227,367</td>
<td>6.80%</td>
<td>70.00%</td>
<td>$15,461</td>
<td>$180,157</td>
</tr>
<tr>
<td>95021040</td>
<td>Dolls; not stuffed, not over 33cm in height</td>
<td>$200,753</td>
<td>12.00%</td>
<td>70.00%</td>
<td>$24,090</td>
<td>$140,527</td>
</tr>
<tr>
<td>62061000</td>
<td>Women's/girls' blouses and shirts; of silk or silk waste</td>
<td>$194,792</td>
<td>7.50%</td>
<td>65.00%</td>
<td>$14,609</td>
<td>$116,875</td>
</tr>
<tr>
<td>95034900</td>
<td>Toys; representing animals or non-human creatures</td>
<td>$169,958</td>
<td>6.80%</td>
<td>70.00%</td>
<td>$11,557</td>
<td>$118,971</td>
</tr>
<tr>
<td>39269090</td>
<td>Articles of plastics and other materials of headings</td>
<td>$154,153</td>
<td>5.30%</td>
<td>80.00%</td>
<td>$6,170</td>
<td>$123,322</td>
</tr>
<tr>
<td>84145100</td>
<td>Fans; table, floor, wall, window, ceiling or roof; not more than 125W output</td>
<td>$143,388</td>
<td>4.70%</td>
<td>35.00%</td>
<td>$6,739</td>
<td>$50,186</td>
</tr>
<tr>
<td>85271111</td>
<td>Radio-tape player combinations; non-recording</td>
<td>$139,658</td>
<td>3.70%</td>
<td>35.00%</td>
<td>$5,167</td>
<td>$48,080</td>
</tr>
<tr>
<td>85163100</td>
<td>Electrothermic hair dryers</td>
<td>$138,015</td>
<td>3.90%</td>
<td>35.00%</td>
<td>$5,383</td>
<td>$48,305</td>
</tr>
<tr>
<td>42022215</td>
<td>Handbags, with or without shoulder strap or handle</td>
<td>$135,550</td>
<td>20.00%</td>
<td>45.00%</td>
<td>$27,110</td>
<td>$60,899</td>
</tr>
<tr>
<td>62034240</td>
<td>Men's/boys' trousers, overalls and shorts; of cotton, other</td>
<td>$131,098</td>
<td>17.70%</td>
<td>90.00%</td>
<td>$23,204</td>
<td>$117,894</td>
</tr>
<tr>
<td>95049040</td>
<td>Game machines; other than coin or token operated</td>
<td>$126,572</td>
<td>3.90%</td>
<td>35.00%</td>
<td>$4,936</td>
<td>$44,300</td>
</tr>
<tr>
<td>67029040</td>
<td>Artificial flowers; man-made fibers, other</td>
<td>$119,651</td>
<td>9.00%</td>
<td>71.50%</td>
<td>$10,769</td>
<td>$85,550</td>
</tr>
<tr>
<td>61103030</td>
<td>Sweaters, pullovers, vests and similar articles; man-made fiber, other</td>
<td>$117,603</td>
<td>34.20%</td>
<td>90.00%</td>
<td>$40,230</td>
<td>$105,643</td>
</tr>
<tr>
<td>61102020</td>
<td>Sweaters, pullovers, vests and similar articles of cotton; 36%+ flax fiber, other</td>
<td>$113,483</td>
<td>20.70%</td>
<td>50.00%</td>
<td>$23,486</td>
<td>$56,742</td>
</tr>
<tr>
<td>64039960</td>
<td>Nonwelt footwear with outer soles of rubber or plastic</td>
<td>$112,768</td>
<td>8.50%</td>
<td>20.00%</td>
<td>$9,585</td>
<td>$22,554</td>
</tr>
<tr>
<td>42022160</td>
<td>Handbags, with/without shoulder strap or handle; other, not over $20 value</td>
<td>$110,343</td>
<td>10.00%</td>
<td>35.00%</td>
<td>$11,034</td>
<td>$38,620</td>
</tr>
<tr>
<td>42029230</td>
<td>Travel, sports and similar with outer surface</td>
<td>$102,158</td>
<td>20.00%</td>
<td>65.00%</td>
<td>$20,434</td>
<td>$66,409</td>
</tr>
<tr>
<td>95038020</td>
<td>Toys incorporating an electric motor</td>
<td>$99,959</td>
<td>6.80%</td>
<td>70.00%</td>
<td>$6,797</td>
<td>$69,971</td>
</tr>
<tr>
<td>62064030</td>
<td>Women's/girls' blouses and shirts; man-made fiber, other</td>
<td>$99,878</td>
<td>28.60%</td>
<td>90.00%</td>
<td>$28,565</td>
<td>$80,800</td>
</tr>
</tbody>
</table>

**Total** $5,238,498 $437,253 $2,487,027

**Tariff as percentage of total value**

| Total | | 
|-------|-------|-------|
|      | $5,238,498 | $437,253 | $2,487,027 |
|      | 7.35%  | 8.35%  | 47.48%  |
US. (28) See Figure 1. Reduction in transshipments would negatively impact banking, insurance, shipping, and legal services in Hong Kong. Stephen K.C. Cheong of the Hong Kong Legislative Council and C.Y. Leung of the Hong Kong Basic Law Consultative Committee state that loss of MFN for the PRC would damage the Hong Kong economy, injure the approximately 900 US companies doing business there, and hurt the local population. (29) Donald Anderson, former US Consul General in Shanghai and Hong Kong, thinks "that the major issue is confidence," which he feels "has slipped a great deal" since Tiananmen. (30) He cites the uneasiness of local Chinese and their thoughts of leaving Hong Kong before it's turned-over to the PRC in 1997.

In addition, withdrawal of MFN would negatively impact American business, investors, retailers, and consumers. US exports to the PRC—about $5 billion—would suffer when the Chinese retaliate for the substantially increased tariffs their goods would encounter because of non-MFN status. (31) PRC retaliation could include increasing tariff and nontariff barriers to US exports to the PRC and/or purchasing substitute goods from other sources. Some of those who could be significantly affected include the following:

- Wheat farmers—sales of over $500 million in 1990 with long-term growth potential (32)
- Commercial aircraft manufacturers—sales exceeding $700 million in 1990 with pending contracts to raise deliveries to $1 billion annually (33)
- Fertilizer manufacturers—sales of over $500 billion in
Fig. 1 - Total US Imports From China Direct and Transshipped through HK - 1991

Direct PRC Exports
31%
$4.73 bil

HK Transshipments
69%
$10.47 bil

Source: US and Hong Kong Govt. Statistics
Compiled: The US-China Business Council
1990 (34)

- Cotton farmers and fabric manufacturers--sales exceeding $280 million in 1990 (35)
- American investors in China--about $4 billion in plants and equipment) (36)

For the top twenty-five US exports to the PRC in 1990, see Table 2.

Foreign enterprises like joint ventures would be hurt as they would have to find other suppliers or pay higher prices for US-sourced raw materials, parts, and components. (37) Also, there is the possibility of prejudicial treatment of investment projects by the PRC as yet another retaliatory measure. For example, new proposals for US joint venture projects could be disapproved--the PRC could select companies from other countries with which to establish joint venture partnerships. (38) Second, the PRC could act prejudicially against established US joint ventures in competitive business situations. (39) And third, the PRC could make it more difficult for US joint ventures to operate and to expand their product lines and market shares by stifling bureaucratic "red tape." (40) These actions could result in tremendous loss of present and future US business opportunities in the PRC.

Finally, because of the significantly increased tariff rates on goods from non-MFN countries, US retailers and consumers would pay more for goods imported from the PRC. (41) These higher prices would have to be paid unless substitute cheaper goods could be found--meaning more work, effort, and inconvenience for
Table 2
Top Twenty-Five US Exports to China in 1990
(US$ millions)

<table>
<thead>
<tr>
<th>Commodity Number</th>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>8802</td>
<td>Aircraft</td>
<td>$609</td>
</tr>
<tr>
<td>3100</td>
<td>Fertilizers</td>
<td>$544</td>
</tr>
<tr>
<td>1001</td>
<td>Wheat</td>
<td>$497</td>
</tr>
<tr>
<td>5201</td>
<td>Cotton, not carded or combed</td>
<td>$277</td>
</tr>
<tr>
<td>4403</td>
<td>Wood in the rough</td>
<td>$175</td>
</tr>
<tr>
<td>2917</td>
<td>Polycarboxylic acids</td>
<td>$145</td>
</tr>
<tr>
<td>8803</td>
<td>Parts of aircraft, spacecraft, etc.</td>
<td>$140</td>
</tr>
<tr>
<td>8431</td>
<td>Parts for machinery</td>
<td>$114</td>
</tr>
<tr>
<td>8471</td>
<td>Automatic data process machines</td>
<td>$113</td>
</tr>
<tr>
<td>8479</td>
<td>Machines etc. having individual functions</td>
<td>$97</td>
</tr>
<tr>
<td>5502</td>
<td>Artificial filament tow</td>
<td>$88</td>
</tr>
<tr>
<td>8411</td>
<td>Turbojets, turbopropellers &amp; other gas turbines</td>
<td>$88</td>
</tr>
<tr>
<td>4804</td>
<td>Kraft paper and paperboard, uncoated</td>
<td>$73</td>
</tr>
<tr>
<td>2603</td>
<td>Copper ores and concentrates</td>
<td>$50</td>
</tr>
<tr>
<td>3901</td>
<td>Polymers of ethylene, in primary form</td>
<td>$47</td>
</tr>
<tr>
<td>8502</td>
<td>Electric generating sets and rotary converters</td>
<td>$44</td>
</tr>
<tr>
<td>9030</td>
<td>Oscilloscopes, spectrum analyzers, etc.</td>
<td>$42</td>
</tr>
<tr>
<td>3902</td>
<td>Polymers of propylene or other olefins, primary forms</td>
<td>$41</td>
</tr>
<tr>
<td>9027</td>
<td>Instruments for physical and chemical analysis</td>
<td>$36</td>
</tr>
<tr>
<td>3912</td>
<td>Cellulose and chemical derivatives</td>
<td>$33</td>
</tr>
<tr>
<td>9015</td>
<td>Surveying, hydrographic, oceanographic &amp; other instruments</td>
<td>$28</td>
</tr>
<tr>
<td>4703</td>
<td>Chemical woodpulp, soda or sulfate</td>
<td>$28</td>
</tr>
<tr>
<td>8525</td>
<td>Broadcast transmission equipment</td>
<td>$26</td>
</tr>
<tr>
<td>8705</td>
<td>Special purpose motor vehicles</td>
<td>$25</td>
</tr>
<tr>
<td>8421</td>
<td>Centrifuges</td>
<td>$25</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$3,305</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total All US Exports</strong></td>
<td><strong>$4,007</strong></td>
</tr>
</tbody>
</table>

*Source: US Department of Commerce Statistics*

*Compiled by The US-China Business Council*
US retailers and consumers.

The following statement by Minister Zhang Zai at the National Defense University Pacific Symposium in 1986 describes the impact of actions like MFN withdrawal:

Since the developed nations in the Pacific region now have a closer relationship with the developing countries there, and are indeed more interdependent than before, injuries suffered by the developing countries are bound to hurt the developed nations as well. Quenching thirst by drinking poison is certainly not the right approach. (42)

In essence, those in favor of withdrawing MFN from the PRC view this action as a means to punish the PRC for human rights violations, unfair trade practices, and sale of arms/weapons technology transfer. However, those opposed to withdrawing MFN status from the PRC argue that there is no evidence that withdrawal of MFN would in fact change PRC behavior in any of these areas. Opponents also see negative impacts to withdrawing MFN to include economic instability within the PRC and surrounding region, retardation of the reform movement, and increased costs to American business, investors, retailers, and consumers.

**EXTEND MFN STATUS WITH CONDITIONS TO THE PRC**

The Congress has considered two bills not directly related to emigration waiver authority. HR2212 and S1367 specify conditions that the PRC must meet to receive MFN status. To resolve the differences in these two bills, Congress formed a conference committee that eventually produced House Report 102-392 to accompany HR2212. Agreed to conditions are divided into two categories—those that the PRC "must meet" to continue MFN status and those for which the PRC must show "significant progress" to
receive MPN. "Must meet" conditions relate to the Tiananmen Square incident and include the following:

- Provide "an accounting of citizens who were detained, accused, or sentenced as a result of the nonviolent expression of their political beliefs during those events; and" (43)
- Release "citizens who were imprisoned after such detention, accusation, or sentencing...." (44)

"Significant progress" is defined as "the implementation of measures that will meaningfully reduce, or lead to the termination of, the practices identified...." (45) "Significant progress" conditions apply to the following areas:

- **Human Rights.** The PRC must show "significant progress" in acting to prevent gross violations of internationally recognized human rights in the PRC and Tibet, prohibiting use of prison labor to produce exports, ending religious persecution, terminating prohibitions on peaceful assembly and demonstration, ceasing harassment and intimidation of Chinese citizens in the US, and removing restrictions on freedom of the press and broadcasts of the Voice of America. (46)

- **Trade Practices.** The PRC must show "significant progress" in correcting unfair trade practices—the US must have fair access to PRC markets and the PRC must stop unfair trade practices to include infringement of US patents and copyrights, and violation of other intellectual property rights. (47)

- **Arms Proliferation.** The PRC must show "significant progress" in adhering to existing international agreements
regarding weapons proliferation--restricting sales of mis-
siles/launchers and transfer of nuclear, chemical, and bio-
logical weapons technology.(48)

To extend MFN, the President must certify that the PRC has
met the above conditions. Failure to certify or receipt of
information indicating that the PRC has not met these conditions
would result in immediate withdrawal of MFN.

**Proponents Want to Incentivize the PRC**

**Proponents** of conditional MFN believe that this "carrot and
stick" approach will encourage the PRC to change its be-
havior--that dangling the MFN carrot in front of the Chinese is
enough to make the Chinese meet our conditions for MFN. After
all, isn't the US the largest market for PRC exports? Holly J.
Burkhalter, Washington Director, Asia Watch, states:

> We wholeheartedly believe that China's trade status
should be conditioned upon its performance on a
number of human rights issues, including political
imprisonment, torture, forced labor, and human
rights in Tibet...Congress must be committed to
ending MFN if those improvements are not made
within a specified time frame.(49)

Moreover, a recent Washington Post editorial stated:

> The president should eagerly embrace such a bill [MFN
with conditions] for its promise of serving both his
national-interest goals and his human-rights goals.
Mr. Bush keeps saying that the United States can't
influence Beijing if it "isolates" Beijing. But it
plays directly into the Communist leadership's hands
to depict every congressional effort to condition MFN
as "isolating" China. The Senate, in approving the
House Bill and rendering it veto-proof, can leave the
burden of deciding whether China is isolated or
engaged where it ought to be--on Beijing.(50)
But what sovereign nation would allow another country to dictate--by public ultimatum--the conduct of its internal affairs?

Opponents of this approach feel that conditional MFN is tantamount to withdrawing MFN as the PRC will not be willing to or able to fully meet all the conditions as specified. They sense that the Chinese reformers now in power would be very reluctant to take actions to meet the US conditions. In fact, the Embassy of the PRC has released the following statement:

China maintains that no country or organization should be allowed to interfere in the internal affairs of other countries by exploiting the issue of human rights.

Following a tough round of trade negotiations over intellectual property rights, Mr. Li Lanqing, Minister of Foreign Economic Relations and Trade, commented that:

The Chinese people are not afraid of pressure. The more pressure you apply, the more resistance you see. In dealing with the Chinese you'd be better not to use such methods.

Other reasons for the PRC not to accept US conditions are as follows:

- **Loss of Face.** Appearance of a foreign power dictating conduct of the PRC's internal affairs--a challenge to national honor and sovereignty. Minister Zhang Zai stated the following at the National Defense University Pacific Symposium in 1986:

My countrymen still feel the tug of historical memories of China being subjected to foreign aggression and exploitation for a century or more before the founding of the People's Republic of China in 1949.
- **Internal Challenge.** Hardliners/anti-reformers waiting for any sign of reform failure to discredit reformers and to derail the reform movement.(55)

- **Commercial Alternatives.** Availability of opportunities involving other nations to make up for US commercial loss.(56)

- **Differing Viewpoint.** Belief that US concerns reflected in the conditions for MFN are either not significant issues or are consistent with the actions of other nations to whom the US has granted MFN status.(57)

- **Lack of Political Stability.** Government uncertainty of its own legitimacy--feels that it doesn't have broad base of support among people, so fears making significant changes, particularly in area of human rights.(58)

In essence, those in favor of extending MFN with conditions want to use MFN as a lever to force the PRC to change their behavior in a variety of areas, not all directly related to commerce between our two countries. However, those against extending MFN with conditions state that it's highly unlikely that the PRC will positively respond to ultimatums or extreme pressure by the US or any other nation.

**EXTEND MFN WITHOUT CONDITIONS TO THE PRC**

**Proponents See Benefits for Both the US and the PRC**

Those in favor of granting MFN without conditions, as routinely done over the last twelve years, argue that MFN for the PRC would continue to benefit both countries. The PRC would
continue to receive help in developing its economy and catching up with the rest of the modern world. In fact, the PRC economy has grown at a phenomenal rate, and the US has been the major factor in this growth trend. In addition, this relationship has contributed to economic, political, and social reforms in the PRC. And this has been good for the PRC, as well as regional, and world stability!

The US has also benefitted from the extension of MFN to the PRC. For example, the US exported approximately $5 billion to the PRC in 1990 alone.\(^{(59)}\) This commercial relationship has facilitated dialogue on economic and other issues between the two countries. Proponents argue that more specific measures—other than MFN—can change PRC behavior in the areas of human rights, trade practices, and arms/weapons technology transfer. They feel that a change in MFN policy is a much too broadbrush treatment for specific concerns for which there are more appropriate and effective countermeasures—pressure must be focused on where it will do the most good/have the most effect.\(^{(60)}\) This approach of extending MFN without conditions while using tailored policy tools to cause reform in the PRC is known as "constructive engagement."\(^{(61)}\) Some examples of tailored policy tools are as follows:

- **Human Rights.** First, the US could request that the United Nations Commission on Human Rights investigate the alleged human rights violations in the PRC, and seek international support for this investigation, thereby increasing pressure on the PRC to correct its current practices.\(^{(62)}\)
Second, the US could continue high level—Assistant Secretary of State, Secretary of State, and perhaps, Presidential—discussions with the PRC to maintain focus on human rights issues. (63)

- **Trade Practices.** First, the US could aggressively pursue actions (e.g., investigations, sanctions) under Section 301 of the 1988 Omnibus Trade and Competitiveness Act to force the PRC to open its markets to US goods and to eliminate or at least significantly reduce its unfair trade practices. (64) Second, the US could use its potential support of the PRC's bid for membership in the General Agreement on Tariffs and Trade (GATT) for leverage to resolve existing trade problems. (65) And third, the US could strengthen and more strictly enforce Section 307 of the Tariff Act of 1930 (19 U.S.C. 1307) which prohibits importation of convict-made goods. (66)

As a result of aggressive investigations under Section 301, the US recently negotiated—by threat of retaliatory tariffs—concessions from the PRC which would better protect US intellectual property. (67) On 19 January 1992, the United Press International reported that the PRC agreed to "strengthen domestic legal protection for copyrights, patents, and trade secrets and to join international conventions guaranteeing such protection." (68)

- **Arms Proliferation.** First, the US could renew high-level US defense department contacts with the PRC's military leadership to aggressively address weapons proliferation problems. (69) Second, the US could strongly encourage the PRC to sign or adhere
to the limitations, controls, standards, and guidelines contained in international agreements on arms proliferation, such as the Missile Technology Control Regime (MTCR), Nuclear Suppliers Group, and Australia Group on chemical and biological arms proliferation.(70) And third, the US could obtain international support for restriction of weapons technology to the PRC and for development of a common policy to address weapons—particularly missiles—transfers to other countries by the PRC.(71)

**Opponents Want to Get the PRC's Attention**

On the other hand, **those opposed** to granting MFN without conditions feel that it's time for the US to use its most potent weapon to change PRC behavior.(72) Opponents point out that the US has been trying other approaches for years without much success.(73) While they recognize that there's the danger of "throwing out the baby with the bath water," they feel that the potential benefits of PRC behavior change are worth the risks of PRC alienation and withdrawal from the community of nations. Opponents argue that it's time to get the PRC's attention!

In essence, **those in favor** of continuing MFN without conditions cite benefits that have already been enjoyed by both the PRC and the US, while **those opposed** to this approach argue that our most potent weapon should now be used to force progress in areas of US concern.
So, which argument should prevail? To answer this question, we should first examine our national security interests, national objectives, national security policy, and instruments of national power. National objectives indicate what we want to do as a nation, while national interests—which are value-driven—explain why we establish these objectives. National security policy relates how we are going to use our instruments of power to attain our national objectives.

What are our relevant national interests? The National Security Strategy of the United States, August 1991, identifies the following national interests:

- The survival of the United States as a free and independent nation, with its fundamental values intact and its institutions and people secure.
- A healthy and growing U.S. economy to ensure opportunity for individual prosperity and resources for national endeavors at home and abroad.
- Healthy, cooperative and politically vigorous relations with allies and friendly nations.
- A stable and secure world, where political and economic freedom, human rights and democratic institutions flourish. (74)

To meet these national interests of survival, economic well-being, vigorous international relations, and world stability, our national objectives regarding the PRC should be to facilitate modernization of the PRC while promoting economic (market economy), political (democracy), and social (open society) reforms within the country. But how do we do this?
Our policy should focus on judicious use of our national instruments of power to form a relationship through which we can positively influence the PRC. As in the past, we should rely on our diplomatic, political, and economic instruments of power to promote reform. The policy of economic assistance—through the granting of MFN status—has supported our national interests by establishing a commercial relationship that has stimulated the PRC's economy and "opened" the country to US values, ideals, practices, goods, services, etc. This active dialogue between the two countries—promoted especially by economic activities in the southern PRC—has encouraged democratic reform, strengthened the economy, and opened PRC society. In essence, economic pluralism has led to political pluralism. (75)

The results have encouraged the PRC to abandon its self-imposed isolation and to establish economic relations with its Asian neighbors. Premier Li Peng has visited almost all of the nations of Southeast Asia, and the PRC has restored relations with Vietnam. (76) It has also established relations with the independent republics in the former Soviet Union and intensified relations with India. (77) In addition, the PRC has normalized relations with Singapore and will celebrate the 20th anniversary of normalization of relations with Japan. (78) It's also expected to soon establish full diplomatic relations with South Korea. (79)

As the PRC's economic involvement in the region increases, so will its interest in maintaining regional prosperity and stability. And this is in our long-term economic and security interests! Minister Zhang Zia in a paper presented at the
National Defense University Pacific Symposium in 1986 stated:

It is China's position that the Pacific should become a genuinely pacific ocean. The Pacific countries should strictly observe the principles of mutual respect for territorial integrity and sovereignty, mutual nonaggression, non-interference in each other's international affairs, equality and mutual benefit, and peaceful coexistence. They should settle their disputes by peaceful means, without resorting to force or threat of force. No country should seek hegemony in this region. The arms race--the nuclear arms race in particular--must be halted.(80)

Although we don't agree with all the actions that the PRC has taken in the areas of human rights, trade practices, and arms/nuclear technology proliferation, it's still clearly in our interest to continue to grant MFN without conditions to the PRC. We need to keep our eyes on the ball--the "big picture" of maintaining an "open" PRC--and not get sidetracked by other issues that can be adequately handled by specific US-initiated actions--using an "apples to apples" approach--some of which have already resulted in movement, albeit marginal in some cases, by the PRC in the following key areas:

- **Human Rights.** The US has continued to apply pressure to the PRC in the area of human rights--most recently, the State Department in its annual human rights report severely criticized the PRC for repressive practices. This type of public criticism has resulted in some limited concessions, mainly the release of a few detainees. For example, Premier Li Peng recently advised President Bush that three prominent Chinese Roman Catholics, to include the bishop of Fujian province, would be released.(81)

- **Trade Practices.** US-initiated Section 301 investigations
into alleged unfair trade practices by the PRC continue, highlighting US concern in this area and the need for PRC corrective actions. During a recent visit by Secretary of State James A. Baker III, the PRC agreed to text curbing export of prisoner-made goods to the US. The PRC has also agreed to "strengthen domestic legal protection for copyrights, patents, and trade secrets and to join international conventions guaranteeing such protection." In addition, the PRC has agreed to continue discussions on removal of US-alleged trade barriers.

- **Arms Proliferation.** The PRC has indicated that it will follow-up its verbal assurances with written confirmation that it will abide by the guidelines and parameters of the Missile Technology Control Regime (MTCR), which is designed to prevent the spread of ballistic missiles in the Third World. In addition, the PRC has indicated that it will ratify its participation in the Nuclear Nonproliferation Treaty (NPT) by April 1992.

Perhaps, we have overreacted to the Tiananmen Square incident. Donald Anderson, former US Consul General in Shanghai and Hong Kong, states:

> In my opinion the attempts to remove China's Most Favored Nation (MFN) trading status were an overreaction. We've granted MFN to an awful lot of countries with human rights records far worse than China's.

Under Secretary of State, Lawrence Eagleburger, states that MFN without conditions "...provides our best instrument for promoting positive change and U.S. interests in China." President George Bush, in his commencement address to Yale
University, May 27, 1991, stated:

The most compelling reason to renew MFN and remain engaged in China is not economic, it's not strategic, but moral. It is right to export the ideals of freedom and democracy to China. It is right to encourage Chinese students to come to the United States, and for talented American students to go to China. It is wrong to isolate China if we hope to influence China.(89)

I strongly concur with these views and believe that we must remain fully engaged—perhaps, more forcefully in some areas—with the PRC to help it develop into a more democratic and responsible member of the world community. With our continued help and involvement in commercial activities, the PRC can contribute even more to regional and world prosperity and stability. "Constructive engagement" is the key to reform in the PRC.

In my view, it's indeed prudent that The National Security Strategy of the United States, August 1991, states that:

Consultations and direct contact with China will be central features of our policy, lest we intensify the isolation that shields repression. Change is inevitable in China, and our links with China must endure.(90)
ENDNOTES


3 Ibid.


8 Interview with Dave Keegan, China Desk, State Department, Washington, D.C., 12 February 1992.

9 U.S., Congress, House, Conf.Rept. 102-392, p.2


12 Ibid.


17 Ibid.

18 Ibid.


23 Ibid.

24 Ibid., p.7.

25 Ibid., p.2.

26 Ibid.


33 Ibid.

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35 Ibid.

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45 Ibid., p.6

46 Ibid., p.4

47 Ibid.

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56 Reardon telephone interview, 30 December 1991.

57 Ibid.


60 Keegan interview, 12 February 1992.

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63 Brick, Backgrounder, p.13.

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71 Ibid., p.3.


73 Senators Lugar and Mitchell speaking for and against most-favored-nation with conditions for the People's Republic of China, p.S10516.


77 Ibid.

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83 "China to U.S.--'Don't Threaten US,'" The News, p.16.


88 Senators Lugar and Mitchell speaking for and against most-favored-nation with conditions for the People's Republic of China, p.S10519.


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