

AD-A262 303



1992
Executive Research Project
RSS 2

DTIC
S ELECTE
APR 1 1993
C D

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

Colonel
John M. Numoto
U. S. Air Force Reserve

Faculty Research Advisor
Captain John W. Reddinger, USN

DISTRIBUTION STATEMENT A

Approved for public release
Distribution Unlimited



The Industrial College of the Armed Forces
National Defense University
Fort McNair, Washington, D.C. 20319-6000

98 8 31 018

93-06580



3581

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION Unclassified			1b. RESTRICTIVE MARKINGS	
2a. SECURITY CLASSIFICATION AUTHORITY N/A			3. DISTRIBUTION/AVAILABILITY OF REPORT Distribution Statement A: Approved for public release; distribution is unlimited.	
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE N/A				
4. PERFORMING ORGANIZATION REPORT NUMBER(S) NDU-ICAF-92-882			5. MONITORING ORGANIZATION REPORT NUMBER(S) Same	
6a. NAME OF PERFORMING ORGANIZATION Industrial College of the Armed Forces		6b. OFFICE SYMBOL (If applicable) ICAF-FAP	7a. NAME OF MONITORING ORGANIZATION National Defense University	
6c. ADDRESS (City, State, and ZIP Code) Fort Lesley J. McNair Washington, D.C. 20319-6000			7b. ADDRESS (City, State, and ZIP Code) Fort Lesley J. McNair Washington, D.C. 20319-6000	
8a. NAME OF FUNDING/SPONSORING ORGANIZATION		8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER	
8c. ADDRESS (City, State, and ZIP Code)			10. SOURCE OF FUNDING NUMBERS	
			PROGRAM ELEMENT NO.	PROJECT NO.
			TASK NO.	WORK UNIT ACCESSION NO.
11. TITLE (Include Security Classification) <i>most-favored-nation status for the Peoples Republic of China: a United States Policy Dilemma</i>				
12. PERSONAL AUTHOR(S) <i>John Numoto</i>				
13a. TYPE OF REPORT Research		13b. TIME COVERED FROM <u>Aug 91</u> TO <u>Apr 92</u>	14. DATE OF REPORT (Year, Month, Day) April 92	15. PAGE COUNT 40
16. SUPPLEMENTARY NOTATION				
17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)	
FIELD	GROUP	SUB-GROUP		
19. ABSTRACT (Continue on reverse if necessary and identify by block number) SEE ATTACHED				
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT ☒ UNCLASSIFIED/UNLIMITED ☐ SAME AS RPT. ☐ DTIC-USERS			21. ABSTRACT SECURITY CLASSIFICATION Unclassified	
22a. NAME OF RESPONSIBLE INDIVIDUAL Judy Clark			22b. TELEPHONE (Include Area Code) (202) 475-1889	22c. OFFICE SYMBOL ICAF-FAP

1052

MOST-FAVORED-NATION STATUS FOR THE PEOPLE'S REPUBLIC OF CHINA:

A US POLICY DILEMMA

by

John M. Numoto, LtCol, USAFR

ABSTRACT

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.

1992
Executive Research Project
RSS 2

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

Colonel
John M. Numoto
U. S. Air Force Reserve

Faculty Research Advisor
Captain John W. Reddinger, USN



DTIC QUALITY INSPECTED 6

The Industrial College of the Armed Forces
National Defense University
Fort McNair, Washington, D.C. 20319-6000

Accession For		
NTIS	CRA&I	☒
DTIC	TAB	☐
Unannounced Justification		☐
By _____		
Distribution /		
Availability Codes		
Dist	Avail and/or Special	
A-1		

DISCLAIMER

This research report represents the views of the author and does not necessarily reflect the official opinion of the Industrial College of the Armed Forces, the National Defense University, or the Department of Defense.

This document is the property of the United States Government and is not to be reproduced in whole or in part for distribution outside the federal executive branch without permission of the Director of Research and Publications, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C. 20319-6000.

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 terminates.

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. 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)

CHAPTER 2

DISCUSSION

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:

- o 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)

o 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)

o 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.(22) 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.(23)

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%.(24) Dollarwise, this would mean an increase in duties collected from \$.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.(25) 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.(26) It's estimated that about 2 million workers in export industries would lose their jobs.(27)

Withdrawal of MFN would also adversely affect Hong Kong through which the PRC transships almost 70% of its exports to the

Table 1
Top Twenty-Five US Imports From China in 1990
(US\$ thousands)

Commodity Number	Item	Value	MFN Tariffs	Non-MFN Tariffs	1989 Collected Duties	Non-MFN Equivalent Duties
27090020	Petroleum, oils and oils from bituminous minerals	\$635,153	10.5cts/bbl	21cts/bbl	\$3,288	\$6,756
64029915	Footwear not elsewhere indicated; uppers over 90% rubber or plastic	\$582,750	6.00%	35.00%	\$34,965	\$203,963
61109000	Sweaters, pullovers, sweatshirts, vests and similar articles; other textile materials	\$527,258	6.00%	60.00%	\$31,636	\$316,360
95039060	Other toys; without spring mechanisms	\$377,919	6.80%	70.00%	\$25,698	\$264,543
64039990	Nonwelt footwear; outer soles of rubber or plastic, leather upper, \$2.50+/pair value	\$246,501	10.00%	20.00%	\$24,650	\$49,300
85171000	Telephone sets	\$231,760	8.50%	35.00%	\$19,700	\$81,116
95034110	Stuffed toys representing animals or non-human creatures	\$227,367	6.80%	70.00%	\$15,461	\$159,157
95021040	Dolls; not stuffed, not over 33cm in height	\$200,753	12.00%	70.00%	\$24,090	\$140,527
62061000	Women's/girls' blouses and shirts; of silk or silk waste	\$194,792	7.50%	65.00%	\$14,609	\$116,875
95034900	Toys; representing animals or non-human creatures, other	\$169,958	6.80%	70.00%	\$11,557	\$118,971
39269090	Articles of plastics and other materials of headings	\$154,153	5.30%	80.00%	\$8,170	\$123,322
84145100	Fans; table, floor, wall, window, ceiling or roof; not more than 125W output	\$143,388	4.70%	35.00%	\$6,739	\$50,186
85271111	Radio-tape player combinations; non-recording	\$139,658	3.70%	35.00%	\$5,167	\$48,880
85163100	Electrothermic hair dryers	\$138,015	3.90%	35.00%	\$5,383	\$48,305
42022215	Handbags, with or without shoulder strap or handle	\$135,550	20.00%	45.00%	\$27,110	\$60,899
62034240	Men's/boys' trousers, overalls and shorts; of cotton, other	\$131,098	17.70%	90.00%	\$23,204	\$117,968
95049040	Game machines; other than coin or token operated	\$126,572	3.90%	35.00%	\$4,936	\$44,300
67029040	Artificial flowers; man-made fibers, other	\$119,651	9.00%	71.50%	\$10,769	\$85,550
61103030	Sweaters, pullovers, vests and similar articles; man-made fiber, other	\$117,603	34.20%	90.00%	\$40,220	\$105,843
61102020	Sweaters, pullovers, vests and similar articles of cotton; 36%+ flax fiber, other	\$113,483	20.70%	50.00%	\$23,486	\$56,742
64039960	Nonwelt footwear with outer soles of rubber or plastic	\$112,768	8.50%	20.00%	\$9,585	\$22,554
42022160	Handbags, with/without shoulder strap or handle; other, not over \$20 value	\$110,343	10.00%	35.00%	\$11,034	\$38,620
42029230	Travel, sports and similar with outer surface	\$102,168	20.00%	65.00%	\$20,434	\$66,409
95038020	Toys incorporating an electric motor	\$99,959	6.80%	70.00%	\$6,797	\$69,971
62064030	Women's/girls' blouses and shirts; man-made fiber, other	\$99,878	28.60%	90.00%	\$28,565	\$89,890

Total	\$5,238,498	\$437,253	\$2,487,027
Tariff as percentage of total value	7	8.35%	47.48%

The US-China Business Council
Source: US Department of Commerce Statistics

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.

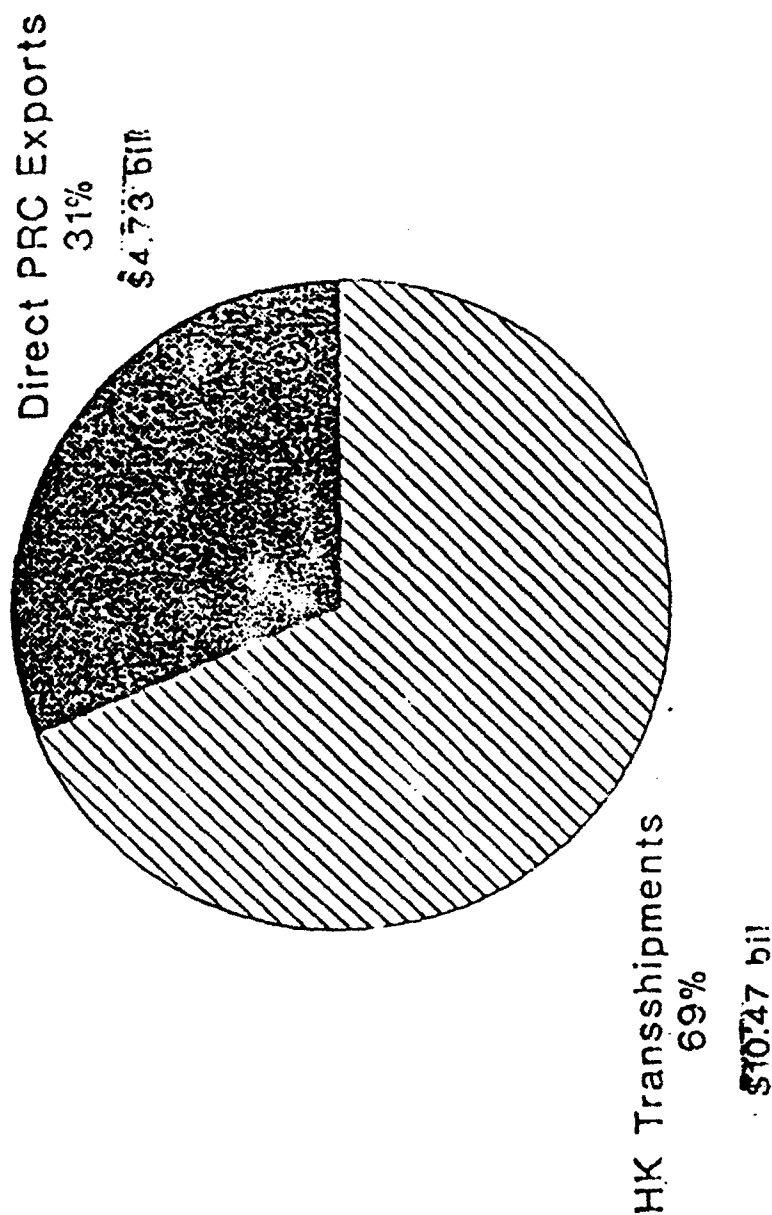
In addition, withdrawal of MFN would negatively impact American business, investors, retailers, and consumers. US exports to the PRC--about \$5 billion--would suffer when the Chinese retaliate for the substantially increased tariffs their goods would encounter because of non-MFN status.(31) PRC retaliation 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:

- o Wheat farmers--sales of over \$500 million in 1990 with long-term growth potential (32)

- o Commercial aircraft manufacturers--sales exceeding \$700 million in 1990 with pending contracts to raise deliveries to \$1 billion annually (33)

- o Fertilizer manufacturers--sales of over \$500 billion in

Fig.1- Total US Imports From China
Direct and Transshipped through HK - 1991



Source: US and Hong Kong Govt Statistics
Compiled: The US-China Business Council

1990 (34)

- o Cotton farmers and fabric manufacturers--sales exceeding \$280 million in 1990 (35)

- o 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)

Commodity Number	Item	Value
8802	Aircraft	\$609
3100	Fertilizers	\$544
1001	Wheat	\$497
5201	Cotton, not carded or combed	\$277
4403	Wood in the rough	\$175
2917	Polycarboxylic acids	\$145
8803	Parts of aircraft, spacecraft, etc.	\$140
8431	Parts for machinery	\$114
8471	Automatic data process machines	\$113
8479	Machines etc. having individual functions	\$97
5502	Artificial filament tow	\$88
8411	Turbojets, turbopropellers & other gas turbines	\$88
4804	Kraft paper and paperboard, uncoated	\$73
2603	Copper ores and concentrates	\$50
3901	Polymers of ethylene, in primary form	\$47
8502	Electric generating sets and rotary converters	\$44
9030	Oscilloscopes, spectrum analyzers, etc.	\$42
3902	Polymers of propylene or other olefins, primary forms	\$41
9027	Instruments for physical and chemical analysis	\$36
3912	Cellulose and chemical derivatives	\$33
9015	Surveying, hydrographic, oceanographic & other instruments	\$28
4703	Chemical woodpulp, soda or sulfate	\$28
8525	Broadcast transmission equipment	\$26
8705	Special purpose motor vehicles	\$25
8421	Centrifuges	\$25
Total		\$3,385
		Total All US Exports \$4,807

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 MFN. "Must meet" conditions relate to the Tiananmen Square incident and include the following:

- o 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)

- o 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:

- o 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)

- o 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)

- o Arms Proliferation. The PRC must show "significant progress" in adhering to existing international agreements

regarding weapons proliferation--restricting sales of missiles/launchers and transfer of nuclear, chemical, and biological 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 behavior--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.(51) 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.(52)

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.(53)

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

o 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.(54)

o Internal Challenge. Hardliners/anti-reformers waiting for any sign of reform failure to discredit reformers and to derail the reform movement.(55)

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

o 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)

o 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:

- o 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)

o 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)

o 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.

CHAPTER 3

CONCLUSION/RECOMMENDATION

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:

- o The survival of the United States as a free and independent nation, with its fundamental values intact and its institutions and people secure.
- o A healthy and growing U.S. economy to ensure opportunity for individual prosperity and resources for national endeavors at home and abroad.
- o Healthy, cooperative and politically vigorous relations with allies and friendly nations.
- o 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:

- o 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)

- o 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.(82) The PRC has also agreed to "strengthen domestic legal protection for copyrights, patents, and trade secrets and to join international conventions guaranteeing such protection."(83) In addition, the PRC has agreed to continue discussions on removal of US-alleged trade barriers.(84)

o 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.(85) In addition, the PRC has indicated that it will ratify its participation in the Nuclear Nonproliferation Treaty (NPT) by April 1992.(86)

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 over-reaction. We've granted MFN to an awful lot of countries with human rights records far worse than China's.(87)

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."(88) 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

1 U.S., Congress, House, Committee on Ways and Means, Disapproval of MFN Treatment to the People's Republic of China, H.Rept.101-772 to Accompany H.J.Res.641, 101st Cong., 2d sess., p.1.

2 "MFN:Sorting Out the Issues," The China Business Review, July-August 1991, p.12.

3 Ibid.

4 U.S., Congress, Senate, An Act to Extend the People's Republic of China Renewal of Nondiscriminatory (Most-Favored-Nation) Treatment Until 1992 Provided Certain Conditions Are Met, S.1367, 102d Cong., 1st sess., 1991, pp.2-3.

5 "China Accused of Detaining Thousands," Washington Post, 5 January 1992, p.A21.

6 David Southerland, "The Witness Against China," Washington Post, 29 September 1991, p.H1.

7 U.S., Congress, House, Committee of Conference, United States-China Act of 1991, Conf.Rept. 102-392 to Accompany H.R.2212, 102d Cong., 1st sess., 1991, p2.

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

10 "China Vote," Washington Post, 6 February 1992, p.A26.

11 Stuart Auerbach, "China Textiles Seized in Raids at 23 Firms," Washington Post, 10 September 1991, p.D1.

12 Ibid.

13 Southerland, Washington Post, p.H4.

14 U.S., Congress, Senate, Senators Lugar and Mitchell speaking for and against most-favored-nation with conditions for the People's Republic of China, S.Res.1367, 102d Cong., 1st sess., 22 July 1991, Congressional Record, vol.137, p.S10516.

15 Phil Roeder and Suzanne Lagoni, "Baucus Blasts China, But Senator Agrees MFN is Wrong Tool," Max Baucus Reports, 5 February 1992, pp.2-3.

16 William C. Triplett, "China's Weapons Mafia," Washington Post, 27 October 1991, p.C3.

- 17 Ibid.
- 18 Ibid.
- 19 Jeffrey R. Smith, "Officials Say Iran Is Seeking Nuclear Weapons Capability," Washington Post, 30 October 1991, p.A20.
- 20 Senators Lugar and Mitchell speaking for and against most-favored-nation with conditions for the People's Republic of China, p.S10517.
- 21 Triplett, Washington Post, p.C3.
- 22 US-China Business Council, The Costs of Withdrawing Most Favored Nation Tariff Treatment for Imports From China (Washington, D.C.: US-China Business Council, 1991), p.3.
- 23 Ibid.
- 24 Ibid., p.7.
- 25 Ibid., p.2.
- 26 Ibid.
- 27 Andrew B. Brick, "America-China Policy: Maintaining Constructive Engagement," Backgrounder, No.118, 15 November 1991, p.10.
- 28 US-China Business Council, The Cost of Withdrawing Most Favored Tariff Treatment for Imports from China, p.2.
- 29 "Reassuring US-China Ties: The China Business Forum's Sterling Debut," The China Business Review, July-August 1990, p.18.
- 30 "Maintaining Perspectives," The China Business Review, January-February 1991, p.51.
- 31 Brick, Backgrounder, p.10.
- 32 US-China Business Council, The Cost of Withdrawing Most Favored Tariff Treatment for Imports from China, p.2.
- 33 Ibid.
- 34 Ibid.
- 35 Ibid.
- 36 Ibid.

37 US-China Business Council, Special Report on US Investment in China (Washington, D.C.: US-China Business Council, 1991), p.57.

38 Telephone interview with Dan Reardon, US-China Business Council, Washington, D.C., 30 December 1991.

39 Ibid.

40 Ibid.

41 US-China Business Council, The Cost of Withdrawing Most Favored Tariff Treatment for Imports from China, p.2.

42 Zhang Zai, "China and the Pacific Region: Interdependence from a Chinese Perspective," Economics and Pacific Security (Washington, D.C.: National Defense University Press, 1987), p.8.

43 U.S., Congress, House, Conf.Rept. 102-392, p.3

44 Ibid.

45 Ibid., p.6

46 Ibid., p.4

47 Ibid.

48 Ibid.

49 "MFN: Sorting Out the Issues," The China Business Review, p.13.

50 "China Vote," Washington Post, p.A26.

51 US-China Business Council, The Cost of Withdrawing Most Favored Tariff Treatment for Imports from China, p.3.

52 "MFN: Sorting Out the Issues," p.13.

53 "China to U.S.--'Don't Threaten US,'" The News, Mexico City, 19 January 1992, Vol. XLII, No.195, p.16.

54 Zai, Economics and Pacific Security, p.1.

55 Dave Keegan, Seminar Lecture, Industrial College of the Armed Forces, Washington, D.C., 27 November 1991.

56 Reardon telephone interview, 30 December 1991.

57 Ibid.

58 Keegan, Seminar Lecture, 27 November 1991.

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

60 Keegan interview, 12 February 1992.

61 Roeder and Lagoni, Max Baucus Reports, p.2.

62 U.S. Congress, House, Committee of Conference, United States-China Act of 1991, Conf.Rept, 102-392 to accompany H.R.2212, 102nd Cong., 1st sess., 1991, p.3.

63 Brick, Background, p.13.

64 Ibid., p.11.

65 Ibid., p.10.

66 U.S. Congress, United States-China Act of 1991, Conf.Rept.102-392, p.5.

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

68 Ibid.

69 Brick, Background, p.11.

70 U.S. Congress, United States-China Act of 1991, Conf.Rept.102-392, p.5.

71 Ibid., p.3.

72 U.S., Congress, House, Subcommittee on Trade, Statement of Congresswoman Nancy Pelosi, Hearing on Most Favored Nation Status for China, 12 June 1991, pp.3-4.

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

74 US, President, National Security Strategy of the United States (Washington, D.C.: Government Printing Office, August 1991), p.3-4.

75 Keegan, Seminar Lecture, 27 November 1991.

76 Lena H. Sun, "Chinese Premier Due at U.N. Friday for Council Summit, Talk with Bush," Washington Post, 30 January 1992, p.A20.

77 Ibid.

78 Ibid.

- 79 Ibid.
- 80 Zai, Economics and Pacific Security, pp.6-7.
- 81 Don Oberdorfer, "China to Reinforce Pledge on Missiles," Washington Post, 2 February 1992, p.A17.
- 82 Lena H. Sun, "Baker Says Gains Made With China," Washington Post, 18 November 1991, p.A1.
- 83 "China to U.S.--`Don't Threaten US,'" The News, p.16.
- 84 Keegan interview, 12 February 1992.
- 85 Oberdorfer, Washington Post, p.A17.
- 86 Keegan interview, 12 February 1992.
- 87 "Maintaining Perspective," The China Business Review, p.50.
- 88 Senators Lugar and Mitchell speaking for and against most-favored-nation with conditions for the People's Republic of China, p.S10519.
- 89 "MFN: Sorting Out the Issues," The China Business Review, p.12.
- 90 U.S., President, National Security Strategy of the United States, p.9.

BIBLIOGRAPHY

- "A Threat to Legitimate Business." The China Business Review, November-December 1991, p.8.
- Asian Studies Center. Backgrounder on America-China Policy: Maintaining Constructive Engagement, Washington, D.C.: Asian Studies Center, 15 November 1991.
- Auerbach, Stuart. "China Textiles Seized in Raids At 23 Firms." Washington Post, 10 September 1991, p.D1.
- Brick, Andrew B. "American-China Policy: Maintaining Constructive Engagement." Backgrounder, Asian Studies Center, Heritage Foundation, No.118, 15 November 1991, pp.1-14.
- "China Accused of Detaining Thousands." Washington Post, 5 January 1992, p.A21.
- "China to U.S.--'Don't Threaten Us.'" The News, Mexico City, 19 January 1992, Vol. XLII, No.195, p.16.
- "China Vote." Washington Post, 6 February 1992, p.A26.
- Evans, Rowland and Novak, Robert. "Bush and Scowcroft Go Soft on 'Probable' China Violation." San Francisco Chronicle, 26 October 1991.
- Goldberg, Morton David and Feder, Jesse M. "China's Intellectual Property Legislation." The China Business Review, September-October 1991, pp.8-11.
- Keegan, Dave. China Desk, State Department, Washington, D.C. Interview, 12 February 1992.
- Keegan, Dave. Industrial College of the Armed Forces, Washington, D.C. Seminar Lecture, 27 November 1991.
- Kenworthy, James L. "US-China Textile Relations." The China Business Review, September-October 1991, pp.40-44.
- Macchiarola, Frank J. and Robert B. Oxam, eds. The China Challenge: American Policy in East Asia, New York: The Asia Society, 1991.
- "Maintaining Perspective." The China Business Review, January-February 1991, pp.50-51.
- Maserati, Helen. "US Fails to Move on China Sanctions." The Journal of Commerce, 29 October 1991.
- McDonald, T. David. The Technological Transformation of China. Washington, D.C.: National Defense University Press, 1990.

- "MFN Fight Not Over Yet." The China Business Review, September-October 1991, p.50.
- "MFN: Sorting Out the Issues." The China Business Review, July-August 1991, pp.12-13.
- National Defense University. Preliminary Regional Studies Strategy Paper: China. Washington, D.C.: National Defense University, undated.
- Oberdorfer, Don. "China to Reinforce Pledge on Missiles." Washington Post, 2 February 1992, A17.
- Oberdorfer, Don. "U.S. Rights Report Assails China's Practices." Washington Post, 1 February 1992, A17.
- Oberdorfer, Don. "U.S. Seeks To Rescue Beijing Ties." Washington Post, 18 November 1991, p.A1.
- Pearson, Margaret. "Party and Politics in Joint Ventures." The China Business Review, November-December 1990, pp.38-40.
- Potter, Pitman B. "Prospects for Improved Protection of Intellectual Property Rights." The China Business Review, July-August 1989, pp.27-29.
- Reardon, Dan. US-China Business Council, Washington, D.C. Telephone Interview, 30 December 1991.
- "Reassessing US-China Ties: The China Business Forum's Sterling Debut." The China Business Review. July-August 1990, pp.18-19.
- Roeder, Phil and Lagoni, Suzanne. "Baucus Blasts China, But Senator Argues MFN Is Wrong Tool," Max Baucus Reports, 5 February 1992.
- Smith, R. Jeffrey. "China-Iran Nuclear Tie Long Known." Washington Post, 31 October 1991, p.A1.
- Smith, R. Jeffrey. "Officials Say Iran is Seeking Nuclear Weapons Capability." Washington Post, 30 October 1991, p.A1.
- Southerland, Daniel. "The Witness Against China." Washington Post, 29 September 1991, pp.H1, H4, and H5.
- Sun, Lena H. "Baker Says Gains Made with China." Washington Post, 18 November 1991, pp.A1, A17.
- Sun, Lena H. "Chinese Premier Due at U.N. Friday For Council Summit, Talk With Bush." Washington Post, 30 January 1992, p.A20.

- Triplett, William C. "China's Weapons Mafia." Washington Post, 27 October 1991, C3.
- US-China Business Council. The Costs of Withdrawing Most Favored Nation Tariff Treatment for Imports From China, Washington, D.C.: US-China Business Council, 1991.
- US-China Business Council. Special Report on US Investment in China, Washington, D.C.: US-China Business Council, 1991.
- U.S. Congress. House. An Act Regarding the Extension of Most-Favored-Nation Treatment to the Products of the People's Republic of China and for Other Purposes. HR.2212, 102d Cong., 1st sess., 1991.
- U.S. Congress. House. Committee of Conference. United States-China Act of 1991. Conf.Rept. 102-392 to Accompany H.R.2212. 102d Cong., 2d sess., 1991.
- U.S. Congress. House. Committee on Ways and Means. Approving the Extension of Nondiscriminatory Treatment to the Products of the People's Republic of China. H.Rept. 96-733 to Accompany H.Con.Res. 204, 96th Cong., 2d sess., 1980.
- U.S. Congress. House. Committee on Ways and Means. Disapproval of Extension of MFN Treatment to the People's Republic of China. H.Rept.101-772 to Accompany H.J.Res 647, 101st Cong., 2d sess., 1990.
- U.S. Congress. House. Subcommittee on Trade. Statement of Congresswoman Nancy Pelosi. Hearing on Most Favored Nation Status for China, 12 June 1991.
- U.S. Congress. House. Trade Act of 1974. Pub.L. 93-618, 93d Cong., 2d sess., 1975.
- U.S. Congress. Senate. An Act to Extend the People's Republic of China Renewal of Nondiscriminatory (Most-Favored-Nation) Treatment Until 1992 Provided Certain Conditions Are Met. S.1367, 102d Cong., 1st sess., 1991.
- U.S. Congress. Senate. Senator Lugar speaking against most-favored-nation status with conditions for the People's Republic of China. S.Res.1367, 102d Cong., 1st sess., 22 July 1991, Congressional Record, vol.137.
- U.S. President. National Security Strategy of the United States. Washington, D.C.: Government Printing Office, August 1991.
- Yang, John E. "China's Li Snubs Bush On Rights." Washington Post, 1 February 1992, p.A17.
- Zai, Zhang. "China and the Pacific Region: Interdependence from a Chinese Perspective." Economics and Pacific Security.

Washington, D.C.: National Defense University Press, 1987.