



Backgrounder

The Heritage Foundation • 214 Massachusetts Avenue, N.E. • Washington, D.C. 20002-4999 • (202)546-4400



No. 130

April 18, 1994

ENDING THE CONFUSION IN U.S. CHINA POLICY

INTRODUCTION

President Bill Clinton's China policy is based on a fundamental contradiction. On the one hand, the President wants to engage China, hoping to solicit its cooperation on the problem of North Korea and nuclear proliferation. On the other hand, he wants to force China to improve its human rights record, threatening to punish and isolate it with trade sanctions if it does not.

This contradiction has created a confusing policy of mixed signals and misunderstanding that is making a mess of America's Asia policy: it not only threatens a break with a critically important Asian power, but undermines U.S. attempts to isolate North Korea in its bid for nuclear weapons. Even on its own contradictory terms, Clinton's China policy is a failure. So far it has not produced any significant improvements in China's human rights record.

Economic engagement and trade are better tools for promoting change in China than public hectoring about human rights. In the past ten years China's foreign trade has grown over 300 percent, increasing its per capita gross national product from under \$200 in 1984 to around \$1,680 in 1993. Such new wealth has undermined the power of China's Communist Party by encouraging local resistance to Beijing's control, diminishing the Party's control of peoples' daily lives, and giving millions of Chinese the freedom to accumulate wealth to spend as they please.

Both Ronald Reagan and George Bush believed that engaging China with commerce and diplomacy was the best way to moderate the human rights policies of the Chinese leadership and advance American interests. Their policies led to rapidly expanding commercial ties. Trade between the U.S. and China rose from around \$6.3 billion in 1984 to an estimated \$40 billion in 1993. Over the same period, U.S. exports to China increased 290 percent to a total of \$8.7 billion in 1993. China is now America's seventh largest trading partner.

Despite a presidential campaign heavily critical of Bush for “coddling” China, Clinton, too, came to understand the value of engaging China economically. Three months after taking office, he renewed China’s most-favored-nation (MFN) trade status in an executive order on May 28, 1993.¹ But the President characteristically tried to work both sides of the political fence: he wanted the economic advantages of continued U.S.-China commerce as well as the ability to use trade as a political lever. The executive order listed specific improvements in human rights that China would have to demonstrate by June 1994 if MFN was to be renewed. Clinton expanded upon the two existing MFN requirements—free emigration and prohibition against shipping prison-made goods to the United States—by adding five more demands:

- ① an adherence to the United Nations’ Universal Declaration of Human Rights;
- ② an accounting of political and religious prisoners;
- ③ improved treatment for all prisoners;
- ④ an end to China’s repressive policies in Tibet; and
- ⑤ terminating its jamming of international TV and radio broadcasts.

Subsequent public statements by Administration officials created a great deal of confusion over Clinton’s China policy. Treasury Secretary Lloyd Bentsen, on January 22, 1994, declared in Beijing that his visit had been a success because of the “pattern of cooperation” established. He added that “...we achieved a good balance between pursuing economic interests and putting them in an overall political context.”² Bentsen’s statement, however, contrasts sharply with Secretary of State Warren Christopher’s failed visit to Beijing on March 11-13. Beijing gave Christopher a sharp rebuke in response to his tough human rights message. After this visit Christopher contradicted Bentsen, when on March 17, he said “I pulled no punches and yielded no ground” in discussions with the Chinese. He also made it clear that MFN status was in doubt over their human rights record.³

The Assistant Secretary of State for East Asian Affairs, Winston Lord, added to the confusion at a March 29, United States Chamber of Commerce meeting. Lord suggested that selective sanctions on China’s state-owned enterprises “should be looked at.”⁴ His aim was to find some balance between Clinton’s human rights and trade policies. However, instead of balance, the result was, once again, counterproductive policies and confusion. In a move to raise cash and ease worker discontent, Beijing has permitted foreign investors to purchase state-owned enterprises. Removing MFN status, even in a selective manner, would halt this process and slow privatization and other economic reforms.

1 Most-Favored-Nation or MFN trading status grants Chinese exports the same tariff rate accorded to the goods of other nations, including Burma, Iraq, and Syria. The U.S. and China have granted each other MFN since 1979.

2 Rich Miller, “Bentsen prods China to reform rights, economy,” *The Washington Times*, January 23, 1994, p. A1.

3 Thomas W. Lippman, “White House Studies Selective Imposition of China Trade Restraints,” *The Washington Post*, March 18, 1994, p. A4.

4 Steven Greenhouse, “Aide Says U.S. May Scrap Across-the-Board Penalty for China,” *The New York Times*, March 30, 1994, p. A10.

Armed with Clinton's 1993 executive order, such opponents of China's MFN status as Representative Nancy Pelosi (D-CA) and Asia Watch, the human rights watchdog group, are eager to use his long list of human rights grievances to punish China with trade sanctions. This is a fundamental mistake. China's MFN status encourages the prosperity that weakens the iron grip of Beijing's rulers and offers the Chinese people the hope of real political reform. China's phenomenal economic growth already has created tensions between the provincial governments and national government. Local leaders want more economic freedoms. This drive for freedom would be cut short if MFN is not renewed. America also benefits from China's continued growth. Exports to China in 1993 supported 174,000 American jobs, and, despite a U.S. trade deficit with the PRC, China's demand for imports will grow as personal incomes and taste for American products increase.

As important as it is, MFN is not the only issue defining relations between Washington and Beijing. America has other critical interests that require Chinese cooperation. These include stopping North Korea from making nuclear weapons and halting China's sale of long-range ballistic missiles to such countries as Iran, Pakistan, and Syria. To advance America's important commercial ties, improve prospects for human rights in China, and support long-term U.S. interests in Asia, Clinton must develop a policy of constructive engagement toward China. In the long run, this policy is the best way to champion human rights in China. To achieve these goals, Clinton should:

- ✓ **Confer permanent and unconditional MFN status on China.**
- ✓ **De-link trade issues like MFN from human rights issues** while increasing the number of high-level diplomatic meetings to address human rights concerns.
- ✓ **Encourage China to lower barriers** to trade and investment.
- ✓ **Strengthen the Republic of China** on Taiwan by increasing its international recognition, thus helping the ROC remain a positive example for reform on the mainland. April 10, 1994, marks the fifteenth anniversary of the signing of the Taiwan Relations Act, created by the U.S. in 1979 to guarantee the security of the ROC.
- ✓ **Help Hong Kong to remain a vibrant center of commerce** and an example of democratization in Greater China. The southern coastal regions of China have already been influenced by Hong Kong. They have codified laws, decentralized government, and established other freedoms normally associated with democracy.
- ✓ **Press China to persuade North Korea to end its nuclear weapons program.**
- ✓ **Increase U.S.-China military contacts** as a means to stop China's missile sales to rogue states. By providing leverage over the military, these contacts should help to convince China to curtail its spread of missiles to rogue states.

CONFUSED FROM THE START: ORIGINS OF CLINTON'S CHINA POLICY

The confusion in Clinton's policy toward China began during the 1992 presidential campaign. Candidate Clinton harshly criticized President George Bush for "coddling" the Chinese regime. His alternative was to link China's trading privileges not only to its human rights record, but to its conduct on trade and weapons sales.⁵

But after Clinton took office in January 1993, he did not set out to punish Beijing for its human rights abuses. Instead, the President sought and obtained from Congress approval for China's MFN trade status. He did this by issuing an executive order last May that extended MFN for China in 1993, but set forth a series of specific human rights conditions that China would have to meet to qualify for MFN status in 1994. Clinton stated in the executive order that he had "carefully weighed the advisability of conditioning China's MFN status as a means of achieving progress."⁶

Clinton said that extension will be recommended:

- ◆ **IF** it will promote the freedom of emigration objectives of the Trade Act of 1974, and
- ◆ **IF** China is complying with the 1992 agreement to reduce prison labor content in China's exports to the United States.

In addition, the Secretary of State will determine if China has made "overall, significant progress" on:

- ◆ **Adhering** to the Universal Declaration of Human Rights, drafted by the United Nations in 1948;
- ◆ **Releasing** and accounting for political and religious prisoners;
- ◆ **Ensuring** humane treatment of prisoners by allowing access to international humanitarian organizations;
- ◆ **Protecting** Tibet's distinctive religious and cultural heritage;
- ◆ **Permitting** international radio and television broadcasts into China.

Adding these new demands was intended to satisfy China's critics in Congress. Representative Pelosi and Senate Majority Leader George Mitchell had developed legislation demanding more progress from China on human rights. Their bill called for changes in China's restrictive population control measures and an outright end to the influx of Chinese settlers into Tibet. However, satisfied with Clinton's May 28 executive order on China, Congress did not consider more restrictive legislation, and China's MFN status was renewed for 1993. Congress accepted Clinton's executive order to send to China

⁵ Susumu Awanohara, "President Clinton," *Far Eastern Economic Review*, November 12, 1992, p.11.

⁶ The White House, Office of the Press Secretary, *Conditions for Renewal of Most Favored Nation Status for the People's Republic of China in 1994*, May 28, 1993.

what Representative Pelosi called “a unified message from the President and the Congress.”⁷

Thus was born the confusion that was to plague Clinton’s China policy. By trying to have it both ways—by keeping MFN for 1993 but raising the stakes for passage in 1994—Clinton had launched an impossibly contradictory course that was bound to confuse and consternate.⁸ As he prepared to travel to Beijing in March, Secretary of State Christopher linked MFN status to human rights by saying, “[The Chinese] have heard from me before and they’ll hear from me again that overall significant progress will be necessary before the most-favored-nation treatment can be extended.”⁹

However, after his January visit to Beijing, Treasury Secretary Bentsen praised China’s progress on human rights and expressed hope “that this pattern of cooperation will continue.”¹⁰ On January 28, 1994, Clinton’s chief economic advisor, Robert E. Rubin discussed the Administration’s willingness to sever the linkage between human rights and MFN because “probably everybody feels [trade and human rights] ought to be de-linked.”¹¹ Moreover, the Commander in Chief of the U.S. Pacific Command, Admiral Charles R. Larson, believes that the U.S. should renew contacts with the Chinese military and end the threat of MFN as a way to influence Chinese proliferation strategy. Admiral Larson asserted last October that “we’ve got to look at engaging China in places that we have common interests,” including the realm of security and economic cooperation.¹²

CONFUSION AND ITS CONSEQUENCES: THE FAILURE OF CLINTON’S CHINA POLICY

The consequence of Clinton’s confused China policy has been a failure to attain any of its goals. Threatening to punish China has not, for example, measurably improved human rights conditions. In the weeks before Secretary Christopher’s March 1994 visit to China, the Chinese demonstrated their disdain for America’s focus on human rights by detaining three American Christians for three days. The trio was charged with conducting “illegal religious activities.”¹³ Additionally, the Chinese authorities threatened and detained more than a dozen Chinese dissidents, among them Wei Jingsheng, who had been imprisoned in 1979 for questioning Deng Xiaoping’s right to rule. Also threatened was Tiananmen Square student leader Wang Dan. Beijing claimed that their activities were illegal and defended its right to question these activists as “entirely within the scope of China’s sovereignty.”¹⁴

-
- 7 Keith Bradsher, “Clinton Aides Propose Renewal of China’s Favored Trade Status,” *The New York Times*, May 25, 1993, p. A1.
 - 8 Robert S. Greenberger, “U.S. Criticizes China on Human Rights, Setting Up a Conflict on Trade Status,” *The Wall Street Journal*, February 2, 1994, p.A1.
 - 9 Elaine Sciolino, “U.S. Showing Frustration Over China’s Human Rights Policy,” *The New York Times*, March 9, 1994, p. A11.
 - 10 Warren Strobel, “China told progress on rights is ‘test’ for favored trade status,” *The Washington Times*, January 24, 1994, p. A1.
 - 11 Peter Behr, “Offering China a Carrot on Trade,” *The Washington Post*, January 29, 1994, p. C1.
 - 12 Bill Gertz, “Admiral urges contact with Chinese military,” *The Washington Times*, October 22, 1993, p. A6.
 - 13 Patrick E. Tyler, “China Holds Christian Visitors 4 Days,” *The New York Times*, February 18, 1994, p. A3.

Despite Clinton's demanding executive order and many statements by his officials critical of China's human rights violations, China has only made cosmetic changes in its behavior. In September the Chinese suggested that the Red Cross could begin prison inspections "sometime in the near future."¹⁵ They have allowed foreign journalists to visit other dissidents in prison and to photograph these visits.¹⁶ Also during 1993, Beijing released several key dissidents from prisons, including prominent 1979 Democracy Wall activists Wei Jingsheng and Xu Wenli.¹⁷ However, despite attempts by the Clinton Administration to portray these developments as progress, China's human rights policy has not changed significantly; abuses of personal liberty and random detention remain common. Releases and prison inspections can quickly be rescinded, and they remain more a political tool than an indication of real freedom in China.

No Progress On Countering Arm Sales. The Clinton Administration's "get tough" policy has not fared much better in restricting China's sales of missiles. Last August Clinton decided to ban transfers of satellite technology to China because of its sale of M-11 long-range ballistic missiles to Pakistan. This sale was a violation of the Missile Technology Control Regime (MTCR), which China had pledged to honor in 1992.¹⁸ The MTCR, established in 1987, lists guidelines to stop the proliferation of missiles and related technology. Twenty-five countries are signatories to the agreement.

Clinton's new ban has had little effect on China's proliferation policies. A 1994 Defense Intelligence Agency report states that China may have helped North Korea develop a long-range missile capable of hitting American targets in both Japan and the Western Pacific.¹⁹ If true, then China would be in clear violation of the MTCR. Since 1990, China has sold over 64 HY-2 Silkworm anti-shiping missiles to Iran and is helping Tehran develop its own production capability for these missiles.²⁰ These missiles were in place during the 1991 Operation Desert Storm, and continue to threaten Western shiping in the Persian Gulf.

-
- 14 David Schlesinger, "China threatens unrepentant democracy activist," *The Washington Times*, March 9, 1994, p. A12.
 - 15 Patrick E. Tyler, "China May Allow Red Cross To Visit Dissidents In Jail," *The New York Times*, November 10, 1993, A1.
 - 16 Prepared statement by John Kamm, "China: Human Rights and MFN," for presentation at a hearing on U.S.-China trade relations before the Subcommittee on Trade, U.S. House of Representatives, February 24, 1994.
 - 17 Lena H. Sun, "China Frees Prominent Dissident 6 Months Short of 15-Year Term," *The Washington Post*, September 15, 1993, p. A1.
 - 18 Department of State, Bureau of Politico-Military Affairs, *Imposition of Missile Sanctions Against Entities in China and Pakistan*, August 25, 1993 (effective August 24, 1993).
 - 19 Thomas E. Ricks and Jackie Calmes, "Reports That China Aided North Korea On Missiles Complicates Trade Issue," *The Wall Street Journal*, March 15, 1994, p. A2.
 - 20 Gordon Jacobs and Tim McCarthy, "China's Missile Sales - Few Changes for the Future," *Jane's Intelligence Review*, December 1992, p. 473, and The International Institute for Strategic Studies, *The Military Balance 1993-1994*, October 1993.

ENGAGING CHINA: A POLICY OF MEASURABLE SUCCESS

Contrasting with Clinton's attempts to punish China is the constructive engagement policy of George Bush and Ronald Reagan. These Presidents recognized that Deng Xiaoping's economic reforms had opened China to Western ideals and commerce. The result was the weakening of the Chinese Communist Party's grip on the daily lives of China's citizens. Consumer items like televisions and portable phones are, after all, much more desirable to the average Chinese than Party slogans.

China under Deng Xiaoping began in 1978 to strip away the layers of bureaucracy and control that had resulted from three decades of Marxist economics. The first phase of reform was taken only in the rural areas. As collective farming systems were terminated, small family farmers gained more freedom to grow and sell crops. Local governments were given control over projects, and they even developed their own tax policies. These gave them more independence from Beijing.

During the second phase of reform, which began in 1984, local banks gained more freedom to support local enterprise, and the Party-controlled Peoples' Bank lost its control over the money supply. As the central government's monopoly on dispensing funds diminished, its political control over the countryside weakened. Despite the attempts by Beijing to rein in the provinces, which included imposing price controls and reimposing a ration system over food and grain supplies, China's coastal provinces are still thriving economically.

Under the impetus of economic reform and trade with the U.S., functional control over economic and foreign trade matters have shifted from the Ministry of Foreign Trade in Beijing to provincial and municipal governments. This shift has been fruitful: China's foreign trade tripled from 1978 to 1988, while its GNP more than doubled as the economy expanded at an average annual rate of 8 percent.²¹ The provinces of Guangdong, Fujian, and Hainan, which were the first to reform, led this economic surge.

These provincial governments are now leaders of political reform as well. They have steadily eroded Beijing's authority over investment, trade, and tax decisions in the provinces. In Hainan, the provincial government has taken steps to further limit Beijing's interference under the aegis of a "small government, large society" program. The result has been the shrinkage of its government departments by nearly a third. In 1992, Hainan set up its own stock market in order to weaken its dependence on the central government in Beijing.²² Land reform policies, including sales of land use rights, have spread from the special economic zones into the interior, enfranchising an ever-growing number of Chinese. In 1992, Zhejiang and Jiangsu provinces, near the city of Shanghai, developed new industrial development zones and eased visas restrictions for overseas Chinese investors. This has undermined Beijing's ability to monitor the flow of capital, as well as people, throughout this dynamic growth area along China's coast.

21 U.S. Department of Commerce, *Foreign Economic Trends and Their Implications for the United States*, revised September 1993.

22 World Bank, *China: Foreign Trade Reform*, April 1, 1994, ANNEX 6.2, p. 227.

The Communist Party's power over the economy and the Chinese people is ebbing. More and more Chinese no longer are dependent on their danwei, or work unit, for employment, health care, and the education of their children. The value of the government safety net has shrunk in the past ten years. Workers no longer are guaranteed an "iron rice bowl," or lifetime job. Instead, state-sector laborers have two - to three-year contracts. Moreover, the government no longer places university graduates in jobs, and managers have greater freedom to recruit or fire laborers as they see fit. As the present system breaks down, privately run schools and health clinics are being established to meet the demands of citizens who work in private business.

All of this economic activity has changed the economic culture of China. Indeed, the new mark of honor in China is to be a successful businessman, and many Party officials have taken the leap from public service—with its subsidized housing and other perks—to enter business. The Chinese call such a move xiaohai, which means "plunge into the sea," implying that those who leave the government for business are leading China's economic development.

MODELS OF REFORM: THE CASES OF TAIWAN AND HONG KONG

The potential for economic growth and reform to spur political reform is demonstrated by the experiences of the Republic of China on Taiwan and Hong Kong.

The ROC is a model of capitalist economic development and democratic political evolution for greater China. Its performance is all the more remarkable because it occurred despite many years of PRC attempts to isolate Taiwan. Despite this effort, the ROC has become one of the most dynamic members of the world economic community; its total foreign exchange reserves, for example, exceed \$90 billion.²³

In the wake of economic growth has come a remarkable democratic evolution. This process began in 1987 under President Chiang Ching-kuo, whose government tolerated criticism, open debate, and even the emergence of a strong opposition party, the Democratic Progressive Party (DPP). In the December 1991 National Assembly elections, an electoral system was introduced that made the ROC the first viable multi-party democracy in China. In 1996 the Taiwanese will hold their first open election for President.

Taiwan began to redefine its relationship with China in November 1987. At that time, Taiwanese citizens were first allowed to visit relatives on the mainland. An estimated 1.5 million ROC residents now travel to China every year. Trade between the ROC and the PRC has grown to around \$12 billion per year.²⁴ These burgeoning ties have opened the way for political discussions. On April 27, 1993, the first high-level talks between the two sides were held in Singapore to examine eventual reunification and also to improve the growing economic relationship.²⁵ Both sides pledged to establish regular contacts to "talk business."²⁶

23 *U.S. and Asia Statistical Handbook*, 1993 Edition (Washington, D.C.: The Heritage Foundation Asian Studies Center, 1993).

24 "China Digs In On U.S. Trade," *The Wall Street Journal*, October 15, 1993.

As for Hong Kong, it has long been recognized as one of the freest markets in the world. Since 1949 it has been the center for most of the foreign commerce and contact with the Chinese mainland. Almost 8 percent of Taiwan's total exports pass through Hong Kong into China, as does half of America's trade with China.²⁷ Hong Kong has invested billions of dollars in the mainland's southern provinces, increasing their economic vitality in the process. Neighboring Guangdong province has received the bulk of Hong Kong's investments, and is dependent on Hong Kong for 82 percent of its foreign trade.²⁸ China received 33 percent of Hong Kong's total exports in 1993. Worth an estimated \$42 billion, the majority of this trade flowed through Guangdong province.²⁹

Hong Kong's transition to Chinese rule is complicated by a growing movement to put democratic institutions into place before the end of British rule. Hong Kong has been a British colony since it was ceded by China in 1841. But under a May 27, 1985, Joint Declaration between the United Kingdom and the People's Republic of China, Hong Kong will revert to Chinese rule on July 1, 1997. London's current Governor General in Hong Kong, Christopher Patten, has lowered the voting age and established elections for the urban and regional councils, which control community services like public health. Beijing has strongly criticized these democratic reforms, which would increase voting rights and participation in Hong Kong's government. In December 1993, Beijing threatened that "the legislative council, district boards and two municipal councils should be disbanded on June 30, 1997, and then reorganized."³⁰

As the transition to Chinese rule draws closer, Hong Kong's citizens are calling for greater democracy. As they do, Chinese on the mainland will hear the call, too. The fate of political reforms in Hong Kong will have a direct bearing on the fate of democracy in China as a whole.

ENDING THE CONFUSION IN U.S. CHINA POLICY

In foreign policy, confusion is the natural result of pursuing diametrically opposed goals. The Clinton Administration claims to understand the strategic importance of engaging China, yet it threatens that very goal with its human rights policy on China. Out of this confusion has come a fundamental policy failure: unable to balance his concern for human rights with other compelling U.S. economic and strategic interests, Clinton risks damaging America's economic and strategic positions in Asia. If MFN is revoked, other countries in Asia will benefit economically while America will be hurt. Moreover, partly because of souring U.S.-China relations, induced mainly by Christopher's preoccupation with the symbolism of human rights, the PRC is not cooperating with U.S. efforts to stop the acquisition of nuclear weapons by North Korea. Also important, Clinton's

25 Nicholas D. Kristoff, "China and Taiwan Have First Talks," *The New York Times*, April 28, 1993, p. A3.

26 *Ibid.*

27 Government Information Office, Republic of China, *The Republic of China Yearbook*, 1994, January 1994, p. 200.

28 Brantly Womack and Guangzhi Zhao, "The Many Worlds of China's Provinces: Foreign Trade and Diversification," paper prepared for "*China Deconstructs*," Washington, D.C., October 1993.

29 Hong Kong Economic & Trade Office, Census and Statistics Department, 1994.

30 Kathy Chen, "China Set to Ax Legislature In Hong Kong," *The Wall Street Journal*, December 24, 1993, p. A7.

confused policy is causing America to lose respect in Asia, which is damaging U.S. leadership in the region on a variety of issues.

However, more is at stake than America's strategic position in Asia. The jobs of 174,000 Americans depend on the over \$8.5 billion worth of annual exports to China.³¹ In 1993, U.S. merchandise exports to Asia reached \$131 billion, supporting 2.6 million U.S. jobs. This is a slight decrease from \$132 billion in 1992. U.S. exports to Asia will drop even further in 1994 if U.S.-China trade sharply declines as a result of denying MFN status to China's exports. U.S. exports of commercial aircraft parts, fertilizers, and advanced scientific instruments will be especially hard hit as China retaliates, as expected, against the loss of MFN. U.S. exports to China grew by 19 percent in 1992, and 17 percent in 1993.³² Even more devastating to American industry, would be the loss of access to the China market over the next few years. China's aerospace market is valued at \$40 billion over the next twenty years, and the market for power generation equipment is pegged at \$90 billion over the next seven years.³³

Clinton's China policy clearly has failed because important U.S. goals are being held hostage to China's human rights policy. These goals include curtailing China's missile proliferation, expanding U.S. trade in Asia, deterring war on the Korean peninsula, and establishing clear American leadership in Asia. America needs a China policy that pursues these goals in a balanced way. The cause of human rights need not be abandoned to pursue these other goals. However, human rights must be put in perspective, and championed not in the short term with public lecturing, but in the long term with policies that promote structural economic and political changes in China. Thus the Clinton Administration should:

✓ **Confer permanent and unconditional MFN status on China.**

Doing this would advance American interests in Asia in three ways:

- 1) **It would affirm America's leadership role in Asia.** The U.S. cannot remain a leader in Asia if it is bent on isolating the largest country in the region. No Asian friend of the U.S.—including the ROC—wants to see America revoke MFN status from China.
- 2) **It would end the annual Washington spectacle of holding U.S. policy toward China hostage to the debate over MFN.** Permanent MFN status would allow the U.S. to maintain a consistent dialogue over such key issues as China's missile sales and trade liberalization without the artificial time constraints created by a year-long MFN debate.
- 3) **It would increase the credibility of American businessmen who are selling or investing in China's expanding market.** Removing MFN status would subject Chinese exports to U.S. tariff increases. China would surely retaliate with

31 The U.S. Department of Commerce calculates that every \$1 billion of exports generates 19,000 jobs. The \$8.5 billion figure comes from U.S. Department of Commerce, *China Statistics*, revised March 1994.

32 U.S.-China Business Council, *Questions and Answers About U.S.-China Trade*, 1994.

33 *Ibid.*

its own trade restrictions. The result would be a sharp reduction in American trade with and influence in China.

✓ **De-link trade issues like MFN from human rights issues while increasing the number of high-level diplomatic meetings to address human rights concerns.**

President Clinton should de-link human rights concerns from the MFN issue. Economic sanctions, like removal of MFN status, do not advance America's goal of expanding freedom in China. Economic sanctions that reduce U.S.-China trade and economic growth in China also depress the economic freedoms that erode communist authority.

De-linking MFN status in this way does not mean abandoning the cause of human rights in China. Washington should press Beijing to permit greater freedom of immigration, to end the use of prison labor, to improve the conditions of political and religious prisoners, and to stop jamming Voice of America broadcasts. But linking these concerns with threats of economic sanctions guarantees China will stonewall, while making only cosmetic improvements in human rights. Rather than high-profile visits by the Secretary of State to chastise the Chinese, the U.S. should develop a more low-key approach, reminding the Chinese that they will not receive full international acceptance so long as the regime denies its citizens' basic human rights. Halting the high-profile American attack on China's human rights record would allow Beijing to accept the establishment of a Joint Human Rights Committee to discuss the promotion of civil liberties and religious freedom. The Chinese would be more willing to cooperate if human rights issues were discussed privately in this committee.

The U.S. has only one political officer in its embassy in Beijing specifically to monitor human rights. There should be one more human rights officer in the U.S. Embassy in Beijing, plus one attached to each of the four U.S. Consulates in China. Washington would then be better able to address its human rights concerns to a wider audience of national and provincial Chinese officials. Provincial leaders, often dependent on Western investment to support their sagging state industry deficits, are generally more reform-minded, and thus more willing to discuss human rights issues.

✓ **Encourage China to lower barriers to trade and investment.**

President Clinton should place a higher priority on convincing China to reduce its barriers to trade and investment. China's trade system remains ridden with restrictive licensing requirements, high tariffs, and confusing quality control measures designed to protect domestic industry. The Bush Administration convinced China to sign a variety of agreements to address U.S. trade complaints over prison-made labor, intellectual property rights, and non-tariff import barriers. In 1992, China pledged to improve its protection of intellectual property rights and to remove non-tariff barriers to American products.

Washington must hold China to its 1992 pledges. In addition to previous pledges, the U.S. must draft new agreements to deal with smuggling along China's coast. Thus, the U.S. should urge China to:

- ◆ **Improve its protection of intellectual property**, as was pledged to the U.S. in January 1992. Complaints by Microsoft Corp. and IBM persist over China's pirating of American computer software designs and music compact disks.
- ◆ **Remove non-tariff barriers to U.S. imports**, as was pledged to the U.S. in October 1992. Restrictive quotas, complex licensing restrictions, and so-called quality control measures that unfairly protect Chinese products continue to block U.S. imports.
- ◆ **Take the steps necessary to join the General Agreement on Tariffs and Trade**. These include establishing a single set of import regulations for the whole country, making public all trade regulations, eventually eliminating non-tariff barriers like quotas or licensing restrictions, and ending the government's role in setting prices.
- ◆ **Stop its role in high-seas piracy**. China condones the hijacking and plundering of merchant ships that travel near China. The culprits usually are Chinese police or other security forces operating with criminals.³⁴ Washington should tell Beijing that Chinese pirates deter trade with China, and threaten the safety of shipping along the coast. The U.S. must privately urge Beijing to end its official policy of treating the South China Sea as a waterway under its sovereign control. The bounty system created by the Chinese in order to end the smuggling between Hong Kong, Vietnam, and Southern China has given government anti-smuggling units the incentive to prey upon all shipping, regardless of its flag or cargo. Diplomatic discussion could be eclipsed by the need for a military deterrent if the Chinese resist making the necessary changes.

Washington should be prepared to use positive and negative incentives in influencing China. If the PRC opens its market more to outside trade, the U.S. should support its bid for GATT membership. However, if it refuses to make progress, Washington should oppose loans to China from multilateral lending institutions like the World Bank and the Asian Development Bank.

- ✓ **Strengthen the Republic of China on Taiwan by increasing its international recognition, thus helping the ROC remain a positive example for reform on the mainland.**

America retains a critical interest in maintaining the ROC's ability to defend itself. To strengthen Taiwan, Clinton should formally discard the arms-transfer limitations of the August 1982 Joint United States-China Communique. Under this communique, the U.S. promised to reduce the quantity and quality of weapons

34 Barry Wain, "China's Gunboat Diplomacy," *The Asian Wall Street Journal*, March 18-19, 1994, p. 8.

sold to Taiwan. This policy would be justified by invoking the 1979 Taiwan Relations Act, which stipulates that the U.S. has the right to lend security assistance to the ROC in the absence of "peaceful intentions" from the PRC. George Bush improved relations with the ROC by selling it advanced F-16 fighter aircraft in 1992. Clinton appeared to step back from this policy in September 1993, when the Defense Department discussed with Beijing the possibility of delaying arms transfers to Taipei in return for an end to China's missile sales.

Clinton should also support Taiwan's bid to gain membership in international organizations. Taipei, for example, is poised to join the GATT. It has increased market access for foreign companies and products, drafted intellectual property laws, and liberalized monetary exchange rates. The ROC has demonstrated its value to the international community by its active participation in such international organizations as the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. By supporting Taipei's membership in the GATT, the U.S. will bring pressure to bear on Beijing to make the reforms necessary to join the GATT as well.

The U.S. also should support Taiwan's bid to join the United Nations. This has been vehemently opposed by Beijing on the grounds that it would complicate the eventual unification of China. Taiwan, however, has correctly argued that participation would facilitate the eventual unification in an internationally monitored, peaceful mechanism. Joining the U.N. would enhance Taipei's legitimacy and strengthen its democratic reforms.

Because Taiwan has become a responsible international player, Clinton should resume dispatching Cabinet-level officials to meet with their counterparts in Taipei. This would demonstrate U.S. support for the ROC, and reaffirm its commitment to an eventual peaceful unification.

✓ **Help Hong Kong to remain a vibrant center of commerce and an example of democratization in Greater China.**

U.S. economic policy toward China directly affects the economic health of Hong Kong and the fortunes of American businesses there. America has a large economic presence in Hong Kong. Over 70 percent of U.S. firms with Asian operations, some 300 companies in all, have located their regional offices in Hong Kong.³⁵ In addition, over 900 American firms maintain offices in the territory, and their investment totals over \$7 billion.³⁶

Hong Kong's economic future is dependent upon trade with China. Loss of MFN status for China would cause U.S. businesses to leave Hong Kong. As a result, the colony's economy would slow by 2 percent to 3 percent in the first year alone.³⁷ A conclusion is inescapable: the American economic involvement and

35 Press Release, Hong Kong Economic & Trade Office, Hong Kong Business Mission to Washington, D.C., *Impact on Hong Kong*, 29 March, 1993.

36 *Ibid.*

37 Hong Kong Economic And Trade Office, Washington, D.C., *Impact on Hong Kong Regarding China's MFN Status*,

commitment to Hong Kong can only continue with renewal of China's MFN status.

American support for Hong Kong's democratic political development is critical to preserving Hong Kong's economic role and ensuring that it remains a model of reform for China. If the PRC restricts Hong Kong's economic freedoms after 1997, businesses will flee Hong Kong. To stop this from happening, the U.S. privately should urge China to allow the democratic political developments proposed by Governor General Patten to proceed.

✓ **Press China to convince North Korea to end its nuclear weapons program.**

To be sure, in the past China has contributed to stability on the Korean peninsula. The establishment of diplomatic relations with South Korea in 1992 is an example. But China has not been cooperative in the international campaign to stop North Korea from building nuclear weapons. The PRC remains North Korea's most important ally. It supplies 75 percent of North Korea's oil and purchases North Korean machinery. This closeness to North Korea can be translated into influence over North Korean leader Kim Il Sung, notwithstanding protestations to the contrary. China would be more willing to listen to U.S. demands if their cooperation over North Korea's nuclear program was not linked with MFN trade status. Linking this issue with trade dilutes the effectiveness of the U.S. in dealing with North Korea.

✓ **Increase U.S.-China military contacts as a means to stop China's missile sales to rogue states.**

Washington should press Beijing to honor the international guidelines established under the Missile Technology Control Regime to curtail the sale of missiles and missile technology. Until Beijing complies with the MTCR, Clinton should refuse to sell technology and military hardware to China. However, the U.S. should resume high-level contacts between Pentagon officials and Peoples' Liberation Army officers. To convince China not to sell dangerous weapons to Pakistan, Iran, and Syria, the U.S. should make clear that military cooperation can continue only if China acts in a responsible manner. Hard-line elements of the PLA now predict that America will be the primary threat to their regional interests. The U.S. needs to support the more professional and younger elements of the PLA who seek American cooperation in developing regional security. These younger officers are likely to play an important role in the looming struggle for China's political succession. They can be cultivated by the U.S. in officer exchange and educational programs in the U.S.

CONCLUSION

President Clinton must end the confusion in America's policy toward China. By advancing a contradictory policy that holds U.S.-Chinese relations hostage to the human rights issue, Clinton ironically risks damaging America's ability to promote democratic reform in China. Clinton also risks diminishing America's leadership role in Asia. To end this confusion, Clinton should embrace a policy of engagement. This involves conferring permanent MFN status on China, while trying to lower China's barriers to U.S. exports. America should side with the vast majority of Chinese who seek a better life for themselves and their children. In China's booming coastal provinces, the dream of a better life is within reach of many for the first time this century.

America's policy toward China also should reflect the full range of U.S. interests with China. Washington is right to press its human rights concerns, but not at the expense of a trade policy that weakens the communist grip on power. The U.S. should also press China to help end North Korea's nuclear threat. Finally, President Clinton should upgrade U.S. relations with the Republic of China on Taiwan, which has emerged as a positive model for peaceful economic and democratic evolution in China.

The Clinton Administration does not seem to realize that drastic, positive change will occur in China only when the existing regime is gone. This change, however, will take place only over time, not overnight. The U.S. must, therefore, act now to establish ties with the future leaders in China: the southern capitalists, the younger military officers, and the political dissidents. They will be the ones who will make the democratic and human rights reforms that the President wants.

Brett C. Lippencott
Policy Analyst

ATTENTION COMPUERVE SUBSCRIBERS

All Heritage Foundation studies are now available on CompuServe as part of the Town Hall forum. A joint project of The Heritage Foundation and *National Review*, Town Hall is a meeting place for conservatives to exchange information and opinions on a wide variety of subjects. For more information online, type **GO TOWNHALL** or call **1-800-441-4142**.

All Heritage Foundation papers are available electronically on the "NEXIS" on-line data retrieval service. The Heritage Foundation's Reports (HFRPTS) can be found in the OMNI, CURRNT, NWLTRS, and GVT group files of the NEXIS library and in the GOVT and OMNI group files of the GOVNS library.

