

CONTINUING CHINA'S MFN STATUS: STILL IN U.S. INTERESTS

(Updating *Backgrounder Update* No. 251, "A Scorecard for U.S.-China Relations," June 12, 1995, and *Backgrounder Update* No. 243, "China Should Adhere to Rules of the Road," March 29, 1995)

A move is underway in the House of Representatives to revoke China's most-favored-nation (MFN) trading status. Representative Frank Wolf (R-VA) is spearheading an attempt to revoke China's trading privileges because of Beijing's human rights abuses. However well-intentioned, this policy is misguided. The issue should not be whether to appease Beijing or condone China's human rights abuses. Rather, the issue should be how best to encourage China to respect international norms of behavior in all areas, including human rights.

The best way to encourage this type of behavior is through policies that promote the rule of law, free trade, economic reform, and democratization in China. These are the seeds from which democracy can grow.

Rescinding its MFN trading status, as Representative Wolf's H.J. Res. 96 aims to do, will not convince China to adhere to international norms. In fact, it could strengthen hard-line elements within the Chinese leadership who believe that America only wants to contain China, as it did the Soviet Union during the Cold War. These elements are opposed to political liberalization, respect for human rights, and the rule of law. Extending unconditional MFN status can help to ensure that these hard-line forces do not gain the upper hand.

REASONS FOR CONTINUING CHINA'S MFN STATUS

There are eight reasons why the U.S. should continue to grant MFN status to China.

REASON #1: Conditioning or revoking trade would impede, rather than advance, the betterment of human rights in China. In particular, trade sanctions would harm America's natural allies in the campaign to nourish a freer and more open China: entrepreneurs in China's flourishing private sector, residents of Hong Kong, and reformers within the Chinese government itself.

REASON #2: Rescinding or conditioning MFN status would harm American business interests in China and cost the American economy thousands of high-tech, high-paying jobs. Last year the United States exported over \$9 billion in goods and services to China. These exports are responsible for generating 180,000 American jobs. China is modernizing its economy and building its infrastructure, constructing modern airports and telecommunications systems. These tasks will require billions of dollars to complete, and American companies are in line to benefit from lucrative contracts. In the next decade, China, classified as a "big emerging market" by the U.S. Department of Commerce, will be

the largest market for American exports of aerospace, telecommunications, petro-chemical, and consumer goods, as well as other high-technology products.

REASON #3: MFN's encouragement of economic rights will lead eventually to demands for political rights. While the intended purpose of Deng Xiaoping's campaign of economic liberalization was to reverse China's thirty-year slide into technological inferiority and poverty, there also were other unintended results. The freedom to control and amass wealth and to make daily economic decisions is one of these unintended results. Another is a growing expectation among Chinese citizens for government accountability and political liberalization. Other Asian states, such as the Republic of China (ROC) on Taiwan and the Republic of Korea (ROK), have charted a similar course from authoritarian rule to greater political freedom by first developing their economies. This could happen in China as well.

REASON #4: Denying MFN status could cause retaliatory sanctions against American companies that would be counterproductive to the advancement of human rights in China. American companies operating abroad are recognized as the leaders in promoting business ethics. Furthermore, the majority of these companies adhere to self-prescribed labor and environmental standards that often go beyond the laws of their host country. To rescind or condition China's MFN status would be to deny the Chinese access to American companies and the force of change which they represent. To enhance the protection of human rights, the American business community should use every opportunity to emphasize that China's human rights practices, including the use of prison-made goods, limit investor confidence and have a negative impact on U.S.-China economic relations.

REASON #5: Linking extension of MFN status to the fate of high-profile Chinese dissidents or Chinese-American labor activist Harry Wu will not expedite their release or force Beijing to provide an account of their whereabouts and condition. A more effective strategy would be for the U.S. to maintain diplomatic pressure on China at the highest level, discussing human rights issues at the U.N. General Assembly session in September and, if need be, the November APEC meeting in Osaka, Japan. Most immediately, the U.S. should insist on a full account of the circumstances of Wu's case and press for his release. In the longer term, the U.S. should insist that China follow through with agreements to allow International Red Cross inspections of its prison systems, abide by the of prison labor agreement with the U.S., and renew its commitment to the consular agreements it violated in preventing U.S. officials from visiting Wu for several days. These actions reflect a troubling disdain for international standards of behavior and agreements, but threatening to rescind MFN—a move that would effectively cripple relations—would be seen by the Chinese as American grandstanding, hardening China's resistance to the U.S. and minimizing the importance Harry Wu's case.

REASON #6: Denying China MFN status would weaken Hong Kong as a vibrant commercial center and as a force for further liberalization after its reversion to PRC rule in 1997. The future of Hong Kong after 1997 resides in its role as the gateway to the mainland. The ability to influence China's rule will depend on its continued economic health. American trade sanctions would cripple the Hong Kong economy and minimize its importance in the eyes of the Beijing government.

REASON #7: Targeting trade sanctions on the army will not work. Some Members of Congress advocate denying MFN status only to state enterprises owned and operated by the People's Liberation Army. This is unrealistic. A "conditioned" MFN status for China would present the U.S. Customs Service with the nearly impossible task of sorting out which of the hundreds of Chinese enterprises should be targeted for sanctions. Furthermore, focusing on state-owned enterprises could jeopardize the entire reform process underway in China. Precluding the products of state-owned enterprises would harm Chinese workers whose only crime is their inability to free themselves from the grip of a state-controlled economy. Sanctions also could increase the possibility of massive unemployment and social unrest—a recipe for an even more defensive, repressive government in Beijing.

REASON #8: Rescinding MFN trade status will not encourage China to adhere to international limitations on transfers of nuclear technology or weapons of mass destruction. China should be made to account for the allegations that it is supplying Pakistan with key missile components in violation of the Missile Technology Control Regime (MTCR). In the past, China has shown its displeasure with America's overtures to Taiwan or criticisms of China's human rights record by selling dangerous technology to unstable regimes such as those in Pakistan and Iran. American trade sanctions would generate another series of sales. Furthermore, sanctions would effectively sever the growing ties between the U.S. and Chinese militaries that eventually could bring about more openness and transparency in China's strategic posture and military goals. The U.S. must investigate the recent allegations of missile sales to Pakistan and has every right to ask China to explain itself. If such sales have taken place, American law dictates that technology and commercial sanctions be imposed on China's aviation and space programs. This approach would avoid the collateral damage caused by an across-the-board rescinding of MFN.

CONCLUSION

The U.S. should not undermine reform-minded Chinese who depend, now more than ever, on the economic liberalization policies that are tied to China's commercial and trade relations with the outside world. Economic freedom is the best road to freeing the Chinese from the political control of the Communist Party. The U.S. should remain committed to its ideals of free trade and human rights not by imposing trade sanctions on China, but by reaching out to those Chinese who want freedom no less than do Americans. The best way to do this is to continue trading with China. China's MFN status should be maintained without condition.

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