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EIGHT GOOD REASONS TO CONTINUE MFN FOR CHINA

The recent crisis in the Taiwan Strait has reignited the annual debate over whether to continue China's most-favored-nation (MFN) trade status. As the debate heats up, Washington policymakers should consider carefully the reasons why continuing MFN for China serves U.S. interests. While granting MFN status does not solve all of America's problems with China, revoking it causes more problems than it solves.

There are eight principal reasons why Congress should approve an extension of MFN status for China.

Reason #1: Revoking MFN will harm those America wants to help. Discontinuing MFN status for China would harm U.S. workers. The U.S. exported over \$12 billion of goods and services to China in 1995, and American trade with China supports over 200,000 high-wage American jobs, as well as tens of thousands of additional jobs in U.S. ports, retail establishments, and consumer goods companies.

Reason #2: Revoking MFN would threaten U.S. business and investment. The International Monetary Fund estimates that China is now the world's third-largest economy after the United States and Japan, and could emerge as the world's largest economy in the 21st century. The World Bank has calculated that China will require nearly \$750 billion in new investments to fund new industrial infrastructure over the next decade. China needs new aircraft, power generators, telecommunications, computers, and other high-skill, high-wage technologies that must be supplied from overseas. American companies should be getting the contracts to build these projects. Continued American leadership in these key technology sectors is vital to sustaining long-term U.S. economic growth and creating high-wage, high-skill American jobs. If MFN is revoked, China's needs will be filled by Japanese and European business and investment. The result will be American jobs lost to competitors overseas.

Reason #3: Revoking MFN would jeopardize economic reform in China. The last 15 years of economic reform in China have increased economic freedom and improved the livelihood of one quarter of the world's population. American companies operating in China have contributed to a significant expansion of economic freedom and choice for the Chinese people. The U.S. must build on this foundation to encourage the further opening of China's economy and society. To be sure, MFN will not guarantee the rise of democracy in China, but at least it keeps China open to influences and pressures from the outside world.

Reason #4: Revoking MFN would harm the economies of Taiwan and Hong Kong. The prosperity of both Taiwan and Hong Kong is heavily dependent on investment and export production in China. Abandoning MFN would cut Hong Kong's economic growth in half. It also would harm Taiwan's economy. Billions of dollars in Taiwanese investment and labor-intensive industries have moved to the mainland, unabated by current tensions with China. Many of the light industrial goods on which Taiwan's economic miracle depends are now produced on the mainland and exported through Hong Kong to the United States and other markets. Many of the goods marked "Made in China" actually are produced by countries the U.S. seeks to support—Hong Kong and Taiwan.

Reason #5: Revoking MFN will not improve human rights conditions in China. History shows that China is far more oppressive against its people when isolated from the outside world. This was clearly the case during the Cultural Revolution of the late 1960s. Human rights improvement is a long-term process that requires U.S. attention, but also U.S. patience. Taiwan's success in improving the economic and political well-being of its citizens demonstrates that this is both possible and desirable in a Chinese society.

Reason #6: Revoking MFN will not encourage China to adhere to international limitations on transfers of nuclear technology or weapons of mass destruction. China should answer the charges that it is supplying Pakistan with key nuclear and missile components in violation of its obligations under the Missile Technology Control Regime (MTCR) and the Nuclear Non-Proliferation Treaty (NPT). The MTCR monitors and controls missile components and capabilities, while the NPT is a framework for control and reduction of nuclear weapons. In the past, China has shown its displeasure with America's overtures to Taiwan and criticism of China's human rights record by selling dangerous technology to such unstable regimes as those in Pakistan and Iran. Revoking MFN could generate another series of sales. The U.S. must investigate the recent allegations of missile sales to Pakistan, and it 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. These sanctions, if not waived by the President, should be specific and targeted on the responsible Chinese enterprise, to avoid jeopardizing unrelated U.S. activities in China, rather than targeted on all U.S.-financed projects in China, as the law requires. Revoking MFN would go even further, adversely affecting all U.S. commercial transaction with China. In this area, MFN is simply the wrong tool.

Reason #7: MFN is not special treatment. MFN trade status is a fundamental principle on which the World Trade Organization operates. The WTO is the multilateral organization that sets the rules for international trade. MFN is the normal trade status granted to all but a handful of countries. In the absence of the Cold War strategic framework, it is the foundation of basic international commercial relations. Discontinuing MFN to China is tantamount to imposing trade sanctions on China. Such sanctions should be imposed only when a country poses a special threat to American security. As difficult as China now is, it does not present such a threat.

Reason #8: Revoking MFN would set the U.S. on the road to confrontation with China. Abandoning MFN for China would lead to Beijing's isolation, making it less likely that China would integrate into the international system in a way that is favorable to U.S. interests. For the United States and its allies to deal effectively with nuclear weapons proliferation, unfair trade practices, and human rights violations, China must be engaged, not an enemy.

Even though the U.S. should continue MFN trade status for China, however, it should not ignore Beijing's recent bellicose actions against Taiwan. To demonstrate displeasure with Beijing's missile diplomacy against Taiwan, and to reward Taiwan once it meets economic criteria for membership in the World Trade Organization, the U.S. should expedite Taiwan's bid to join the WTO ahead of the PRC. In the past, China has insisted that the PRC should accede to the WTO ahead of, or at the same time as, Taiwan. The U.S. should be prepared to exercise leadership in building international consensus for Taiwan's entry into the WTO, even in the face of China's determined opposition.

Conclusion

Conditioning or revoking MFN under current circumstances would eliminate any possibility of cooperation from Beijing, rendering the U.S. less effective in its efforts to limit transfers of nuclear technology and weapons of mass destruction, correct unfair trade practices, and foster development of the rule of law in Asia. Discontinuing MFN would not improve social and commercial conditions in China, but it would come at great cost to Americans and their friends in Hong Kong and Taiwan. For the U.S., revoking or conditioning MFN gains too little and risks too much. Most-favored-nation trade status for China should be renewed unconditionally.

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