

RUSH!

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OUT OF THE MFN TRAP: FORGING A BETTER POLICY TOWARD CHINA

For too long, the United States has been mired in the annual debate over extending most favored nation (MFN) trade status to the People's Republic of China. But simply extending or revoking MFN cannot address all U.S. concerns in dealing with China. The United States can extricate itself from this trap by repealing the Jackson–Vanik Amendment to the 1974 Trade Act, negotiating a tough World Trade Organization (WTO) accession agreement with China, and enacting legislation to address national security and human rights concerns outside the framework of MFN.

Avoiding the MFN Trap. Under Jackson–Vanik, MFN is granted automatically to countries with a market economy. It also can be extended to non-market countries if the President certifies that they grant sufficient freedom of emigration or decides that waiving application of Jackson–Vanik for one year is in the national interest. If this waiver is denied by congressional resolution of disapproval, Smoot–Hawley tariff rates are to be applied to imports from the target country.

The mechanism for extending MFN is outdated and ineffective. Jackson–Vanik was designed to secure freer emigration of Jews from the Soviet Union. Because of China's enormous population (over 1.2 billion), however, other Asian countries and the United States have been more concerned with absorbing the current flow of Chinese migrants than with pressuring Beijing to loosen emigration controls. Thus, many of the assumptions behind the Jackson–Vanik approach do not apply to the extension of MFN to post–Cold War China.

Under the current MFN procedure, the United States threatens to end commercial relations unless Beijing satisfactorily addresses U.S. national security, commercial, and human rights concerns. In reality, if MFN were revoked, American workers and consumers would pay a high price, Hong Kong's economy would be thrown into deep recession, and any pain inflicted on China would be dulled quickly by foreign competition. The Chinese know this, and so do U.S. allies; China probably will join the WTO and receive permanent MFN status in the future anyway. Policymakers therefore should begin now to think about how to deal with China outside the framework of MFN. Specifically, they should:

- **Build incentives for China to join the WTO.** The multilateral WTO sets the rules for international trade. Under WTO discipline, China could enjoy the benefits of membership, including MFN trade status; the United States could use the WTO framework to impose multilateral trade discipline on Beijing; and China's ability to play off one country against another would be minimized.

- **Avoid hurting Hong Kong.** Broad-based sanctions against China could devastate Hong Kong's economy. Any sanctions must be targeted to avoid this unintended consequence.
- **Minimize impact on the private sector.** Policies that stunt the growth of China's private sector weaken the people's primary weapon against intrusive government control. The U.S. government also should minimize its own interference in the right of Americans to engage in commerce.
- **Refrain from making empty gestures.** The United States should use only incentives and penalties it is prepared to deliver and avoid steps that are likely to be undercut by foreign competition.

Crafting a New U.S.–China Relations Act. To move the U.S.–China relationship beyond the MFN debate, Congress should craft legislation that disaggregates its various concerns and identifies other tools that can be used to address them. For example, commercial concerns can be addressed by negotiating a tough WTO accession agreement with China. National security and human rights interests should be addressed through separate legislation that:

- **Repeals** the Jackson–Vanik Amendment and returns to the President the authority to grant unconditional MFN status to any country.
- **Requires** the Department of Defense to submit a report identifying firms controlled by the Chinese military. This would allow consumers and shareholders to decide for themselves whether to do business with these firms, and policymakers to target sanctions and avoid undermining China's private-sector development.
- **Conditions** approval of launches of U.S. satellites from China or trade in high-tech goods on China's compliance with the Missile Technology Control Regime.
- **Conditions** assistance for China's nuclear power development on China's compliance with the Nuclear Non-Proliferation Treaty.
- **Conditions** support for loans from multinational development banks like the World Bank or trade with military-controlled firms on China's progress in eliminating religious persecution.
- **Conditions** extension of generalized system of preferences privileges or export of crime control and detection equipment on China's progress toward due process and the protection of human rights in general.
- **Provides** increased funding for the National Security Agency and the Federal Bureau of Investigation to monitor commercial activities of China's military and prison-labor system.

The goal of U.S. China policy should be greater transparency and rule of law in China, but MFN alone cannot address the various areas of concern in this relationship. A new approach is needed to ensure that national security, commerce, and human rights issues are addressed outside of the MFN framework. The MFN trap serves only to restrict the freedom of action of the United States in its relationship with China.

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