

RUSH!

Number

9/26/97

494

OUT OF THE MFN TRAP: THE CHINA POLICY ACT OF 1997

Stephen J. Yates
Policy Analyst

Congress is considering legislation to address concerns over the Chinese government's human rights abuses and its threat to U.S. and Asian security—concerns to which the Clinton Administration has responded inadequately at best. Representative Christopher Cox (R-CA) has introduced a wide-ranging package of bills in the House. Senator Spencer Abraham (R-MI) has introduced the China Policy Act of 1997 (S. 1164). Both the House and Senate measures would signal American displeasure with Beijing's policies, encourage China's government to improve the treatment of its citizens, and end U.S. taxpayer subsidies for a repressive regime. Both also seek to expand the interaction between the American and Chinese people by maintaining trade relations. Another, deeper objective is to end the false choice of inviting a trade war by revoking most favored nation (MFN) trade status or waiting passively for China to change on its own.

Senator Abraham's bill is farther along in the legislative process and may be voted on sooner. It would publicize the names of companies operating in the United States that are wholly or majority owned by China's People's Liberation Army (PLA), and would impose specific sanctions against PLA-affiliated companies that jeopardize U.S. national security through illegal arms or technology transfers. It also proposes a "Helsinki Commission" for Asia to achieve regional consensus on and commitment to human rights norms. Unlike proposals to revoke MFN, the Act would have minimal impact on China's private sector—the one area where people are liberated from intrusive government control.

Guiding Principles

Both the Cox package and the Abraham bill are built on three guiding principles that should be the cornerstone of U.S. legislation on China policy:

Principle #1: Punish the transgressor. The United States should target those responsible for violations of international security and human rights norms and avoid inflicting undue hardship on allies of freedom in China, Taiwan, and Hong Kong. It especially should avoid measures (like revoking MFN) that force Americans to pay higher prices and suffer increased unemployment and higher taxes while failing to affect government policy in Beijing. The China Policy Act seeks to avoid these mistakes while providing balance to a policy of extending MFN.

Principle #2: Cut aid, not trade. Trade has been one of the most powerful liberalizing forces in the second half of this century, and its impact in increasing living standards and political freedom can be seen throughout Asia. Using it as a weapon to force policy changes in China, however, would be

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

futile: American jobs would be lost needlessly, and China's leaders would turn quickly to other trading partners. A more appropriate strategy would be for the United States to end taxpayer-subsidized development aid to countries that violate international human rights and security norms. China would find it much more difficult to locate alternate sources of aid or multilateral development bank loans.

Principle #3: Strengthen the promotion of democracy. The China Policy Act would increase funding for China programs of the National Endowment for Democracy, the Voice of America and Radio Free Asia, and exchange programs of the U.S. Information Agency. Through programs such as these, the Chinese people can learn firsthand about the United States and about American ideals which can help promote economic and political freedom in China.

How Congress Can Improve the China Policy Legislation

As it has moved through the legislative process, the China Policy Act has become freighted with additional goals and initiatives. Some are inconsistent with its simple and compelling original principles. Some also are found in the Cox package. To return to these principles and make both measures more effective tools of American policy, lawmakers should:

- **Remove export controls on supercomputers.** These provisions are inconsistent with the Act's themes of targeting the transgressor and limiting interference with trade. In its current form, the Act calls for limits on the export of "supercomputers" to China and threatens to impose similar limits on exports to Hong Kong. The term "supercomputer," however, is defined much too broadly; computers in congressional offices and business offices around the world would be deemed supercomputers. Earlier this year, in an amendment to the Department of Defense appropriations bill by Senator Rod Grams (R-MN), the Senate ordered the General Accounting Office to determine a technically viable definition of a supercomputer and assess the likely impact of export controls. The Senate should not act on this measure until it has assessed the GAO's findings.

The current threat to impose controls on exports to Hong Kong is misguided and inappropriate. Government cooperation between Hong Kong and the United States has remained consistent since the change of sovereignty on July 1. The one computer reportedly "diverted" from Hong Kong to the Chinese military has been returned to the United States. Moreover, this provision may be inconsistent with the 1992 U.S. Hong Kong Policy Act.

- **Narrow the definition of "PLA affiliate" to include only companies or enterprises that are wholly or majority owned by the PLA.** In its current form, the China Policy Act casts too wide a net in determining which companies should be considered affiliates of the PLA. The bill requires the directors of the FBI and CIA to report on the activities of PLA affiliates. Because of its broad definition, however, innocent businesses may find themselves sharing places on the list of companies violating intelligence-gathering or export statutes.

During the debate over China's trade status this year, many in Congress complained that MFN was their only tool for registering disapproval of China's human rights abuses and threats to U.S. and Asian security. They felt trapped into a choice between standing up for human rights by denying MFN or expanding freedom through open trade by extending MFN. The China Policy Act and Representative Cox's package offer one way out of this MFN trap. Both advocate policies that promote market reform and freer trade in China and, at the same time, call for measures that pressure China's government to live up to international standards on security and human rights. Promoting freedom through trade and denouncing religious persecution are not mutually exclusive. In fact, the United States will not be truly successful at either unless it does both. The China Policy Act is the Senate's opportunity to add this balance to the U.S. government's China policy.