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SIX REASONS TO CONTINUE MFN FOR CHINA

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This week the U.S. House of Representatives is expected to take up the question of whether to extend most favored nation (MFN) trade status to China for another year. Much has happened in relations between the United States and China since Congress debated China's trade status last year. Two presidential summits were held—in Washington last October and in Beijing last month. Congress opened an investigation into whether American security was compromised by Clinton Administration decisions to promote high-technology exports to China. Perhaps the most significant development was House passage last November of the "Policy for Freedom" package of 11 bills that addressed such sensitive issues as forced abortions, religious persecution, espionage, slave labor, democracy promotion, and missile defense for Taiwan. The Senate has adopted many of these bills as amendments to other legislation.

Although much has happened, it still makes sense for the United States to continue normal trade relations with China. U.S. trade with China that does not compromise high-tech military secrets is not only good for the American economy; it also can advance freedom and democracy in China. As Congress strives to counterbalance President Clinton's overzealous pursuit of a "strategic partnership" with China, it should remember six reasons why extension of MFN status to China is good for America.

REASON #1: MFN helps to roll back the socialist welfare state by expanding China's private sector. Continuation of MFN gives Americans an opportunity to create jobs in China's fledgling private sector—jobs that can

help people in China escape the government's intrusive social controls. Government firms in China control the lives of their workers by making them dependent on subsidized food, shelter, clothing, child care, and education. These workers must obey "voluntary" regulations like the one-child policy or risk losing their benefits. Employees at private firms earn higher wages and are free to choose where to live, what to eat, and how to educate and care for their children. As the private sector in China grows, the scope of these freedoms also will grow. The United States cannot contribute to the expansion of China's private sector without giving China normal trade status.

REASON #2: MFN affords American firms the opportunity to increase participation in China's market by hiring workers laid off by reforms of state-owned enterprises. Beijing has announced an ambitious plan to reform China's large and ailing system of state-owned enterprises. By privatizing these firms or allowing them to "go public" by selling stock, the government will expand opportunities in the non-state sector of China's economy and

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thereby increase the level of economic freedom for the Chinese people. But these reforms also will cause millions of workers to lose their jobs. With continued MFN, American businesses are in a good position to hire these displaced workers and help to minimize the social cost of China's prudent economic reform.

REASON #3: Continued MFN will promote stability for Hong Kong. Hong Kong is facing a tough year in 1998. While the political transition to Chinese sovereignty has progressed better than expected, Hong Kong's economy has been deeply shaken by the sudden regional downturn. The government's commitment to defend the value of Hong Kong's currency and its peg to the U.S. dollar has contributed to economic stability in the region, but Hong Kong's stock and property markets are down. Hong Kong's economy depends entirely on trade, and China and the United States are its two largest trading partners. In 1997, nearly half of U.S. exports to China and half of China's exports to the United States were shipped through Hong Kong. Normal trade between the United States and China is critical to Hong Kong's economic survival. Denying or threatening to deny China's MFN trade status would deal a severe blow to Hong Kong's economy at a time when it is vulnerable. Deepening Hong Kong's economic downturn could jeopardize what has been a relatively smooth political transition and undermine Hong Kong's ability to contribute to China's economic reform and development.

REASON #4: MFN is not special treatment.

MFN is trade jargon for the normal status the United States grants to virtually every trading partner. Any treatment that is granted to all but

six small countries can hardly be considered special.

REASON #5: MFN increases American access to the Chinese people. At a minimum, trade relations with China offer opportunities for Americans living and working in China to see firsthand the progress and shortcomings of China's development. At best, trade relations offer opportunities to exchange religious or cultural beliefs with the Chinese people in the hope of fostering positive change from within China.

REASON #6: Targeted measures better address specific policy concerns. Maintaining normal trade relations with China does not mean that the United States should sacrifice its own security or stop promoting democracy. America should trade with China and simultaneously protect national security and promote democracy through targeted measures like those in the Policy for Freedom package. One such example would be to impose trade sanctions on companies that serve as "fronts" for China's People's Liberation Army.

Denying or threatening to deny MFN to China solves nothing. Extending MFN, however, cannot by itself solve the wide array of U.S. concerns with regard to China's human rights, trade, and security policies. New approaches, like those embodied in the Policy for Freedom package, are necessary to address specific problems in U.S. relations with China. As Congress appropriately presses for a China policy that punishes those who threaten American security and violate basic human rights, it should remember that normal trade relations with China are a necessary, albeit by themselves insufficient, part of an overall U.S. policy toward China.

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