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# FOIA MARKER

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**Record Group/Collection:** George H.W. Bush Presidential Records  
**Collection/Office of Origin:** Legislative Affairs, White House Office of  
**Series:** Dyer, James W., Files  
**Subseries:**

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**OA/ID Number:** 08451  
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**Folder Title:**  
China MFN [4]

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Stack:	Row:	Section:	Shelf:	Position:
<b>G</b>	<b>20</b>	<b>11</b>	<b>6</b>	<b>1</b>

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## Withdrawal/Redaction Sheet (George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Letter	Draft Response to Baucus Letter (3 pp.)	n.d.	(b)(1)	
02. Notes	Handwritten notes re: Iran-Contra (1 pp.)	n.d.	(b)(1)	
03a. Letter	To: Senator Baucus From: Brent Scowcroft Re: China's MFN Status [draft] (4 pp.)	7/8/91	(b)(1)	☑
03b. Paper	Re: Trade and Economic Issues (10 pp.)	7/8/91	(b)(1)	☑
04. Letter	To: Senator Baucus From: Brent Scowcroft Re: China's MFN Status [draft III] (1 pp.)	7/8/91	(b)(1)	
05. Letter	To: Senator Baucus From: President Bush Re: China's MFN Status (8 pp.)	n.d.	(b)(1)	S
06. Paper	Re: Trade and Economic Issues (14 pp.)	7/8/91	(b)(1)	☑

<b>Collection:</b>	
<b>Record Group:</b>	Bush Presidential Records
<b>Office:</b>	Legislative Affairs, White House Office of
<b>Series:</b>	Dyer, James W., Files
<b>Subseries:</b>	
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<b>File Location:</b>	China MFN [4]
<b>Pinksheet Number:</b>	MB4341
<b>OA/ID Number:</b>	08451-008
<b>Date Closed:</b>	9/24/2012
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<b>Re-review Case #:</b>	
<b>P-2/P-5 Review Case #:</b>	

DRAFT RESPONSE TO BAUCUS LETTER

Dear \_\_\_\_\_:

I appreciated receiving your views on the importance of renewing China's most-favored-nation (MFN) trade status while also seeking to achieve progress with the Chinese on issues of vital concern to the American people. We clearly share the same goals. We want to see China return to the path of reform, show greater respect for human rights, adhere to international norms on weapons sales, and practice fair trade.

You rightly note that withdrawing MFN would hurt not only Americans but also the people of Hong Kong and the millions in China who are working for progressive change. Continuing MFN is vital to protect American consumers and exporters, and to support the economic forces that have been driving reform in China for more than a decade. It is no accident that the process of reform started when foreign businesses began operating in that nation. Those favoring an end to political and economic reform in China would stand to gain the most if MFN were withdrawn now. Those hurt most would be the economic forces driving political and social change and encouraging a loosening of state control and more personal freedom. Other losers would be tens of thousands of Americans in industries as diverse as agriculture and aircraft construction. Once lost to our trade competitors, the markets that took us a decade to build would likely never be regained.

I support the view that strong, targeted measures are needed to address our concerns in China, and I have not hesitated to use them. To underscore our concerns about human rights violations, sanctions imposed after the Tienanmen Square crackdown, including those regarding arms sales, high level contacts, U.S. economic programs and U.S. support for World Bank lending to China, remain in place. The depth of our shared concern is underlined by the fact that the U.S. is the only nation maintaining its Tienanmen sanctions and refusing to normalize relations until China makes substantial progress on human rights.

We have, for example, supported only those World Bank loans that serve the basic human needs of the Chinese people. To reemphasize our opposition to other types of loans, I will make clear to our G-7 allies -- Canada, France, Germany, Great Britain, Italy, and Japan -- at the upcoming London Summit the importance we attach to applying this standard to proposed multilateral development loans for China. I will also ask them to continue to stress to Chinese leaders the importance that their governments attach to progress on human rights.

To advance our nonproliferation objectives, I recently authorized a number of steps aimed to make clear our strong opposition to destabilizing Chinese weapons transfers. In April, I rejected satellite component licenses for a Chinese communications project because of Chinese companies' involvement in unacceptable missile equipment transfers. Since then, I approved legal sanctions against two Chinese companies that unacceptably transferred missile technology. In addition, I directed that no further exports of high speed computers or satellites be allowed until our concerns are satisfactorily addressed.

I am pleased that China has agreed to participate in consultations regarding the recently announced Middle East Arms Control initiative, with the goal of restricting arms exports to the region. To help ensure that strict multilateral technology restrictions are imposed on China pending Beijing's adherence to accepted international standards, I have instructed U.S. officials to seek agreement within COCOM that other countries not export high speed computers to China until the Chinese Government strengthens its nonproliferation practices. I have also instructed the Under Secretary of State for International Affairs, who recently travelled to Beijing for a detailed discussion of nonproliferation issues, to hold follow up discussions with Chinese officials on such important issues as China's adherence to the Nuclear Nonproliferation Treaty and the Missile Technology Control Regime.

I have also instructed U.S. agencies to press vigorously our concerns about unfair Chinese trade practices. In April, I authorized the U.S. Trade Representative to designate China under the Special 301 provisions for violation of U.S. intellectual property rights. We are also strictly enforcing the terms of our textile agreement with China and have made two charges against China's quota in illegal textile shipments through third countries, including one for \$85 million.

In keeping with my determination to take targeted steps to achieve specific objectives in the broad scope of our relationship, I am prepared to take further action on these issues. If China does not make adequate progress during the 301 investigation, I will take strong trade action using the broad legal authority at my disposal. (Similarly, if China does not exert effective control over illegal textile shipments, we will inform the Chinese that renegotiation of our bilateral textile agreement is necessary.)

Reports that prison labor exports from China might be entering the U.S. are a matter of serious concern. The Customs Service is currently investigating these charges. In addition, through high-level consultations with the Chinese Government, U.S. officials have obtained a firm commitment to end the export of prison labor products to the U.S. I can assure you that we will continue to monitor China's behaviour in this area closely and will firmly enforce the law when we find evidence of illegal prison labor exports to the U.S.

(To ensure that prison labor exports from China are not entering the U.S. in violation of our laws, I have ordered the following additional measures. The Department of State will seek to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific imports from China were produced by prison labor. Pending negotiation of this agreement, the U.S. Customs Service will temporarily embargo products from China when there is a reasonable suspicion that the products were made by prison labor. The burden of proof will then lie on the Chinese Government or the Chinese exporter to provide credible evidence that the products were not produced by prison labor. Only when such proof is provided will the embargo be lifted. I am also instructing the U.S. Customs Service to identify an office to receive information on prison labor exports and establish procedures for the prompt investigation of reports of prison labor exports from interested parties.)

Although it is not related to China's MFN status, I share your interest in Taiwan's accession to the GATT. A major trading economy, Taiwan can make an important contribution to the global trading system through responsible GATT membership. The U.S. has a firm position of supporting the membership of Taiwan. ~~on terms acceptable to GATT contracting parties.~~ I am therefore instructing the US Trade Representative to take immediate steps to ensure that other GATT members clearly understand our position, and to work actively with other GATT members to resolve issues relating to Taiwan's GATT accession. Because China, our tenth largest trading partner, could also make an important contribution to the global trading system, I will be working to ensure that the Chinese Government takes steps on trade reform so its GATT application can advance and its trade practices can be brought under GATT disciplines.

The concrete steps I have outlined above are carefully targeted to achieve specific objectives, an approach consistent with that proposed by you and your colleagues, and which I believe to be most effective. Our fundamental goals are to change China's behavior and promote the process of reform there. You can be sure that I will continue to take action to pursue our shared goals. I will report to you within six months on the status of the actions I have taken.

Sincerely,

# Withdrawal/Redaction Sheet

## (George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Notes	Handwritten notes re: Iran-Contra (1 pp.)	n.d.	(b)(1)	

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Legislative Affairs, White House Office of  
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**WHORM Cat.:**  
**File Location:** China MFN [4]

<b>Date Closed:</b> 9/24/2012	<b>OA/ID Number:</b> 08451-008
<b>FOIA/SYS Case #:</b> 2012-1098-F	<b>Appeal Case #:</b>
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<b>P-2/P-5 Review Case #:</b>	<b>Disposition Date:</b>
<b>AR Case #:</b>	<b>MR Case #:</b>
<b>AR Disposition:</b>	<b>MR Disposition:</b>
<b>AR Disposition Date:</b>	<b>MR Disposition Date:</b>

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National Security Classified Information [(a)(1) of the PRA]
- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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- (b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- (b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- (b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- (b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- (b)(9) Release would disclose geological or geophysical information

**NATIONAL SECURITY COUNCIL**

July 9, 1991

FOR: JANET MULLINS      KENT WIEDEMANN  
      JIM DYER  
      MIKE ANDRICOS  
      BILL MACKAY  
      JOSH BOLTEN

FROM: DOUG PAAL

Attached are latest version of materials in response to the Baucus letter. There will be a meeting in Doug Paal's office today at 5:30 to discuss this issue.

Please identify to my office who will attend today's meeting -- 395-5746.

Doug

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DRAFT

DECLASSIFIED  
PER NSC WAIVER, 1500 2021-02  
By SS NARA, Date 6/20/25

Dear Senator Baucus:

I appreciated receiving your views on the importance of renewing China's most-favored-nation (MFN) trade status while also seeking to achieve progress with the Chinese on issues of vital concern to the American people. We clearly share the same goals. We want to see China return to the path of reform, show greater respect for human rights, adhere to international norms on weapons sales, and practice fair trade. China should contribute to international stability and not detract from it.

You rightly note that withdrawing MFN would hurt not only Americans but also the people of Hong Kong and the millions in China who are working for progressive change. Continuing MFN is essential to protect American consumers and exporters, and to support the economic forces that have been driving reform in China for more than a decade.

From the start of the U.S.-China relationship in the 1970s, <sup>MFN status</sup> ~~it~~ enjoyed strong bipartisan support. ~~Your letter is in that fine tradition.~~ Building on the three U.S.-China communiques, U.S. interaction with the government and people of China has produced demonstrable progress. That interaction must continue despite the recent severe setbacks. Nevertheless, I support the view that <sup>we</sup> strong measures are needed to address our concerns in China and ~~have~~ not hesitated to use them in a targeted fashion. To underscore our deep dismay about human rights violations, I have kept in place a number of sanctions since the Tiananmen Square crackdown, affecting arms sales, high-level contacts, U.S. economic programs and U.S. support for World Bank lending to China.

<sup>thereby</sup> The U.S. is currently the only Western democracy maintaining its Tiananmen sanctions ~~and~~ refusing to normalize relations until China makes substantial progress on human rights. For example, while our allies and other World Bank members have supported all of the last fifteen bank loans to China, we have declined to support nine because the loans would not serve basic human needs.

At the London Summit, I intend to raise China's human rights practices with our G-7 allies and encourage them to continue to stress to China's leaders, as we have repeatedly, the importance that democratic governments attach to human rights. I will make clear that the U.S. will continue its policy of supporting only those multilateral development loans for China that serve basic human needs. I will also strongly urge that any lending to China help to promote market-oriented economic reform.

(needs more)

To advance our nonproliferation objectives, I recently authorized a number of steps aimed at engaging the Chinese on their weapons transfer policies and making clear our dissatisfaction with transfers that contribute to regional instability. The Under Secretary of State for International Security Affairs recently traveled to Beijing for a detailed discussion of nonproliferation issues, including our specific concerns about Chinese exports. He will be holding follow-up discussions to press for China's adherence to the Nuclear Nonproliferation Treaty and the Missile Technology Control Regime, actions I called for in my commencement speech at Yale University on May 27. China's positive response to my invitation to participate in the Middle East arms control initiative also gives us the opportunity to seek Chinese restraint in arms sales to this volatile region in a multilateral context.

At the same time, I have also taken measures to emphasize to China that the U.S. is concerned about reports of unacceptable missile-related transfers. In April, I rejected satellite component licenses for a Chinese communications project because of the involvement of Chinese companies in unacceptable missile equipment transfers. Just recently, I approved trade sanctions against two Chinese companies for that same reason. In addition, I directed that no further licenses of high-speed computers to China and no further exports of satellites would occur until our concerns that China adhere to accepted international standards are satisfactorily addressed. The U.S. will be engaging with other countries in order not to undercut these measures. Our experience has demonstrated that such consultations will lead to effective, multilateral technology transfer restrictions.

I have also instructed U.S. agencies to press vigorously our concerns about Chinese unfair trade practices. In April, I authorized the U.S. Trade Representative to identify China as a priority foreign country under the Special 301 provisions of the Trade Act for failing to protect U.S. intellectual property rights. If China does not make adequate progress during the 301 investigation, trade action will follow. Beyond intellectual property protection, my Administration has invited senior Chinese trade officials to Washington in August for continuation of consultations begun in June regarding access for U.S. products to the Chinese market. If these talks fail to produce Chinese commitments to take substantial measures to improve market access for U.S. goods and services, the Administration will self-initiate further action under Section 301 of our trade laws.

We are strictly enforcing the terms of our textile agreement with China and have already made charges against China's quota because of illegal textile shipments through third countries totalling approximately \$85 million so far. Following consultations in July, we expect to make additional charges. If China does not exert effective control over these illegal shipments, we are

prepared to take further action against China, ~~beyond charging China's textile quota the documented amount of transshipment.~~

Charges of prison labor exports from China are a matter of serious concern. The Customs Service is investigating these charges. In addition, we have obtained a firm high-level commitment to prevent the sale of prison labor products to the U.S. We will continue to monitor China's behavior in this area closely and will strictly enforce relevant legislation concerning prison labor exports to the U.S. In particular, I am ordering the following additional measures: The Department of State will seek to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific imports from China were produced by prison labor. Pending negotiation of this agreement, the U.S. Customs Service will temporarily embargo products imported from China when there is reasonable indication that the products were made by prison labor. The embargoes will continue until the Chinese Government or the Chinese exporter provides credible evidence that the products were not produced by prison labor.

I am also instructing the U.S. Customs Service to identify an office to receive information on prison labor exports and establish procedures for the prompt investigation of reports of prison labor exports from interested parties. Additional customs ~~inspectors~~ will be directed to identify prison labor exports and aid in uncovering illegal textile transshipments.

*OFFIC 1715*

I share your interest in Taiwan's accession to the GATT, although this issue is not directly related to China's MFN status. A major trading economy, Taiwan can make an important contribution to the global trade system through responsible GATT membership. So also can China, which is our tenth largest trading partner.

The U.S. has a firm position of supporting the membership of Taiwan, as well as China, on terms acceptable to GATT contracting parties. The United States will work actively with other GATT members to resolve in a favorable manner the issues relating to Taiwan's GATT accession [and to form a Working Party formally to consider the request of Taiwan -- as a customs territory -- to negotiate terms of accession.] I am also urging the Chinese Government to take steps on trade reform so that China's GATT application can advance and its trade practices can be brought under GATT disciplines through the Working Party formed for China in 1987. U.S. support for Taiwan's accession as a customs territory should in no way be interpreted as a departure from the long standing policy of five administrations which acknowledges the Chinese position that there is only one China, and that Taiwan is part of China. By the same token, the U.S. has important economic interests to pursue, and they are not served when our fifth largest trading partner is made to wait for China, as a whole, to improve its own trade practices.

In sum, therefore, I am prepared to address the concerns you and your colleagues have identified, and I am doing so. But discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to American interests and would render futile pursuit of the initiatives I have outlined, which are discussed in greater detail in the attachments. Working together, I believe we will best protect America's interests by remaining engaged with China and the Chinese people.

Sincerely,

~~Brent Scowcroft~~

The Honorable Max S. Baucus  
United States Senate  
Washington, D.C. 20510

~~CONFIDENTIAL~~**DRAFT****PART I: TRADE AND ECONOMIC ISSUES**

The Administration is committed to achieving with China the same goals that have guided our trade policy with all other countries. We seek open markets and the opportunity for U.S. firms and their products to compete on fair and equal terms. To achieve these goals, and realize the principles of equality, mutual benefit and non-discrimination set forth in the U.S.-China Bilateral Trade Agreement, this Administration has pursued a policy of negotiation and engagement on trade issues with China. In particular, the Administration has sought to improve U.S. access to China's marketplace; to bolster Chinese protection of intellectual property; to end fraudulent practices by Chinese textile exporters using false country of origin declarations; and, to induce Beijing to undertake the economic and trade reforms required for membership in the GATT.

Reciprocal MFN tariff treatment underpins our ability to work constructively with the PRC. China's desire to retain access to the U.S. market has enabled us to engage Chinese leaders in periods of tension. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests and erode our ability to influence China's behavior on key trade issues.

**A. The Past Decade of Bilateral Trade Relations**

After decades of adhering to an import-substitution strategy that focused on minimizing China's reliance on outside sources of machinery and equipment, in the 1980's China has sought outside sources of these goods. It also has increasingly drawn on foreign technology, expertise, and funds by actively encouraging joint ventures.

China's opening to the outside world has helped transform its economy, bolstering reform-oriented sectors that are not directly controlled by the central government. For example, the state sector now produces just over half of China's industrial output; in 1978, its share was 78 percent. China's dynamic rural industries, which are privately and collectively owned, have burgeoned. The 30,000 foreign-invested ventures China now has are valued at \$40 billion. The impact of China's open door has been particularly pronounced in coastal areas, where 90 percent of the foreign investment and more than three-fourths of China's trade activities are located. This region, in turn, has become the primary engine of economic reform in China largely as a result of the introduction of market concepts to Chinese employees of joint ventures and to citizens engaging in commercial exchanges with the West. The economic autonomy fostered by this interaction contributes to increased political and even individual self-determination.

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By SS NARA, Date 6/20/25~~CONFIDENTIAL~~

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The United States has been a vital partner in this transformation. Following Congressional approval of the bilateral trade agreement, the United States and China established formal trade relations and reciprocally granted most-favored-nation (MFN) status in 1980. Growth in our commercial ties has helped to change China and to bring it into the global trading system. Since the resumption of normal trade relations, U.S.-China two-way trade has increased almost 770 percent, from \$2.3 billion in 1979 to over \$20 billion last year.

- We are now China's second-largest trade and investment partner and its largest export market.
- China is our tenth-largest trade partner, up from fifteenth in 1981.
- Over 1,000 U.S. firms have invested more than \$4 billion in China and another \$5 billion in Hong Kong related primarily to trade with the PRC.
- In 1990, the United States exported \$4.8 billion worth of goods to China, including:
  - \$749 million worth of aircraft
  - \$544 million worth of fertilizer
  - \$512 million worth of grain
  - \$281 million worth of cotton yarn and fabric
  - \$264 million worth of electric machinery
  - \$238 million worth of wood and wood pulp
  - \$238 million worth of chemicals
  - \$227 million worth of scientific instruments.

Commercial relations with the United States have exerted positive influences on China's business and economic practices since 1980. China has shifted away from total reliance on a strongly centralized economy; shown greater tolerance for experimentation with market mechanisms to regulate its domestic economy; and decentralized and liberalized its foreign trade practices.

#### B. Regression in China's Trade Policies

China's opening to the outside world has not been smooth. Over the past decade, attempts to accelerate the implementation of market-oriented reforms have been followed by Beijing's recentralization of control, as concern about the country's ballooning trade deficit led Beijing to step in to regain some of the trade authority it had relinquished.

Moreover, throughout the period since the normalization of trade relations and the granting of reciprocal most-favored-nation trading status in 1980, China's web of barriers to imports has made it difficult for many U.S. exporters to gain access to the Chinese market. U.S. firms have also had difficulty securing protection for their intellectual property.

U.S. trade negotiators have long been engaged with the Chinese Government, both in bilateral negotiations and in multilateral consultations at the GATT held to review China's application for membership. We have sought to ensure that bilateral commercial relations develop in accord with the principles that underlie our bilateral trade agreement: equality, mutual benefit, and nondiscrimination. From 1979 through 1987, Chinese authorities made some progress in dismantling nontariff barriers to imports, in improving transparency, and in protecting the intellectual property of foreigners.

This trend has been reversed over the last three years.

- Since 1988, Chinese trade policies and practices have become more protectionist, nontariff barriers to imports have proliferated, and the trade system has become less transparent. These policies undoubtedly contributed to a 17 percent decline in U.S. sales to China in 1990. China was the only major foreign market for U.S. goods and services in which our exports declined in 1990.
- Despite intensive bilateral negotiations with Chinese authorities since the USTR in 1989 placed China on the "priority watch list" of countries providing inadequate IPR protection--including three rounds of meetings over the past five months--China has failed to live up to the commitments contained in the bilateral Memorandum of Understanding (MOU) signed in May 1989.

At the same time, other problems have developed in our bilateral trade relationship. For example, to bypass U.S. textile and apparel quotas Chinese exporters have increasingly resorted to shipping these products to the United States via third countries using false invoices and counterfeit visas. Also of concern to us has been the apparent lapse in China's commitment to economic and trade reforms that would bring the country in line with the GATT's free-trade principles. China's reassertion of central control over the past few years has called into question its willingness and ability to undertake the obligations that would be required of China as a contracting party to the GATT.

C. Steps the U.S. Government Has Taken and Will Take to Address Bilateral Trade Problems

In four key areas of our bilateral trade relations, the Administration has taken steps to resolve trade problems. We are prepared to do more.

On Market Access

- Beginning in the fall of 1990, the Administration resumed sub-cabinet level meetings with the Chinese, that had been suspended since June 1989, to secure Chinese actions to reverse the growing list of new protectionist measures.

- In May 1991, the Administration formally set in motion a market access initiative that commenced with the visit to Beijing, in mid-June, of an interagency delegation to discuss market access issues. In meetings with senior Chinese officials, U.S. Government officials raised nine types of market access barriers, including: the lack of transparency in rules and regulations; the expansion of import licensing requirements; the use of import substitution policies; the proliferation of import bans and quotas; the growth of standards, testing, and certification requirements, including discriminatory "quality standards" procedures for imports; the high level of many import tariffs; the unnecessary use of certain phytosanitary regulations; the uncertainties regarding government procurement and tendering regulations; and the lack of information regarding China's major development projects.
- The Administration has proposed holding another round of market access consultations in August 1991. If that round of negotiations fails to yield substantial commitments from the Chinese authorities to dismantle market access barriers, the Administration will self-initiate Section 301 action to address those barriers the removal of which offers the most potential for achieving U.S. trade policy objectives and increasing U.S. exports.

#### On Intellectual Property Protection

- On April 26, 1991, USTR identified the PRC as a priority foreign country that denies adequate and effective protection of intellectual property rights.
- Accordingly, on May 26, 1991 USTR initiated a Special Section 301 investigation on the basis of four problem areas: (1) inadequate copyright protection, (2) inadequate patent protection, (3) inadequate trade secret protection and (4) ineffective enforcement of trademarks.
- Consultations with the Chinese are ongoing. The first round of consultations occurred in mid-June and a second has been proposed for August.
- The deadline for making a determination under Section 301 is November 26, 1991. This may be extended for three months if China is making substantial progress in drafting or implementing measures that will provide adequate and effective protection of U.S. intellectual property rights.
- At that time, the USTR must determine whether the acts, policies and practices of the PRC are actionable under Section 301 and what retaliatory action, if any, is appropriate.

- If the consultations fail to produce adequate and effective protection of intellectual property rights, the Administration will take retaliatory action.

#### On Textile Transhipments

- The U.S. Customs Service has been vigilant in documenting cases of Chinese textile transhipments over the past year.
- In August 1990, USTR held consultations with Chinese authorities on the transhipment issue. Additional consultations took place in November 1990, March 1991, and May 1991.
- The U.S. Government "charged" China's quotas for goods that were sent to the United States under false country of origin declarations valued at over \$85 million.
- China has begun to take actions to curtail textile fraud since the December charges were made. For example, it issued regulations prohibiting reexports through a third country to countries that have signed textile agreements with China. Further, the Chinese Government has issued provisions for the punishment of those who violate the regulations.
- The Administration has prepared more charges valued at about \$14 million that we anticipate will be levied after consultations with China next month.
- The Administration will increase the number of U.S. Customs officials dedicated to investigating circumvention.
- If transhipment persists, we will be prepared to take further action against China, beyond charging China's textile quota the documented amount imported through transhipment.

#### On Forced Labor

The importation of goods produced with forced, convict or indentured labor is prohibited by 19 USC Section 1307, which also directs the Secretary of the Treasury to prescribe regulations for enforcement of the provision. The Secretary of the Treasury, under 19 CFR Section 12.42, has delegated to the Commissioner of Customs, authority to determine that a class of goods is the product of forced labor and exclude those goods.

Customs has been investigating imports alleged to be the product of forced labor in China. Customs has interviewed emigres about forced labor practices in China. Customs is also analyzing import samples to determine if they match the descriptions provided by the emigres and others. Additional special agents have been detailed to Hong Kong to assist in the investigation.

Although the letter from Senator Baucus and fourteen co-signers did not specifically address the issue of prison labor imports, appropriate action is called for to fulfill the intent of existing law. The Administration therefore proposes to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific products exports to the U.S. are being produced by prison labor.

Pending negotiation of the MOU, Customs will temporarily embargo specific products from China when there is reasonable indication that they are made by prison labor. Embargoes will be lifted only after the Chinese Government or the Chinese exporter provides credible evidence that the products are not produced by prison labor.

#### Multilateral Lending to China

The G-7 consensus, led by the United States, was successful in prohibiting all MDB lending to China from June 1989 to February 1990 in response to the international outcry against the crackdown by the Chinese authorities at Tiananmen Square.

From February 1990 to July 1990, the G-7 consensus supported a gradual resumption of World Bank lending to China for projects that clearly met basic human needs (BHN). The consensus held firm and actively prohibited other loans from Board consideration. Only five loans (totalling \$590 million) were approved in WBFY 1990. This is substantially less than pre-Tiananmen Square levels of World Bank commitments to China, which were \$1.4 billion in WBFY 1988 and \$1.3 billion in WBFY 1989.

At the Houston Summit in July 1990, several G-7 countries decided that China's long-term development needs argued for lending outside the BHN limits favored by the U.S. Accordingly, the G-7 Houston Summit Declaration of July 1990 on MDB lending to China expanded the boundaries of permitted MDB lending to China to include loans which were environmentally beneficial or which supported market-oriented economic reform. Only BHN loans were considered by the World Bank Board until December 4, 1990 when the market oriented economic reform loan for Rural Industrial Technology was approved by the Board. On November 29, 1990, the ADB approved its first loan to China since Tiananmen Square, Agricultural Bank Project, which the U.S. did not support.

Since March 1991, infrastructure projects outside the Houston summit guidelines (highways, power plants, bridges, and railways) have been approved for China by the World Bank and the Asian Development Bank. The U.S. has and will continue to withhold support on all non-BHN loans at the Board. In WBFY 1991 (which ended June 30, 1991), World Bank lending to China totalled \$1.6 billion.

#### On GATT Accession

-- Since China applied for GATT membership in July 1986, the United States has been a leading participant in the

- collective efforts of major GATT Contracting Parties to develop terms for China's GATT participation that will support the objectives of the GATT and will influence Chinese Government policies to become, over time, more compatible with the GATT framework for world trade.
- U.S. and other major GATT contracting parties' concerns about China's ability and willingness to live up to GATT obligations, particularly since June 1989, have stalled progress in the Working Party established to consider China's application for membership in the GATT.
  - The Administration intends to continue to press Beijing to undertake trade and economic reforms so that its GATT application can advance and its trade practices be brought under GATT disciplines.
  - At the same time, the Administration will work actively with other GATT members to resolve in a favorable manner issues relating to Taiwan's GATT accession [and support the formation of a Working Party for the commencement of accession deliberations.] U.S. support for Taiwan's accession as a customs territory would be consistent both with GATT legal criteria and the "one-China" policy which acknowledges the Chinese position and has been adhered to by successive U.S. Administrations.
  - Taiwan's GATT accession would yield substantial trade and commercial benefits to the United States and to the international trading system.
    - Taiwan has indicated that it is prepared to accede to the GATT as a developed economy, to bind virtually all its tariffs, and to join the major non-tariff measure GATT codes.

D. The Importance of MFN

As highlighted above, the Administration is aggressively seeking to resolve outstanding bilateral trade issues with the PRC. MFN underpins our ability to work constructively with the PRC. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests, and would render futile pursuit of the initiatives outlined above.

It would reduce our leverage in market-access, intellectual property rights protection, and other trade-related negotiations. China's desire to retain access to the U.S. market has enabled us to engage Chinese leaders in consultations on bilateral and multilateral issues even during periods of tension. Because China is not a GATT member and not bound by GATT trade disciplines, it is especially important to have many levers that enable us to engage the Chinese on trade issues.

It would hurt U.S. exporters. If the United States rescinds China's MFN trading status, China will not only discontinue MFN

tariff treatment for the United States, but would likely cease purchasing billions of dollars of U.S. wheat, aircraft, fertilizer, cotton yarn and fabric, wood and wood pulp, electric machinery, scientific equipment, and chemicals. Foreign competitors, whose goods would be subject to lower tariffs, would be quick to exploit our departure. Lost shares of China's market would not easily be regained even if MFN were restored at some future date.

It would hurt U.S. consumers. Tariffs on the 25 most important U.S. imports from China would rise from the present average tariff rate of 8.8 percent to an average rate of 50.5 percent. These increases would mean sharply higher prices for lower-end Chinese goods. The costs to U.S. consumers would be largely borne by poorer Americans, who are primary consumers of low-cost Chinese products.

It would damage America's reputation as a reliable trade partner. Our trade competitors will not join us in denying MFN status to China. Other Chinese trade partners, especially in Asia, urge that China's MFN status be retained.

It would hurt investors, businesses, and workers in Hong Kong. Loss of MFN would impede China's integration into the regional economy, a development crucial to regional stability particularly as we near the 1997 deadline for Hong Kong's reversion to Chinese sovereignty. It could cost over 43,000 jobs in Hong Kong and result in direct revenue losses of approximately \$1.2 billion dollars. Hong Kong's GDP growth could be curtailed by as much as two percentage points.

It would set back efforts to bring about meaningful economic reform in China. A disproportionate burden of the MFN denial would fall on the primary engine of economic reform in China--the economies of the southern and coastal provinces. In Guangdong province, for example, 40 percent of industrial output is produced for export, half of which goes to the United States. SEctors that fall outside of the direct control of the central government have been especially important to China's development as an exporter; one-third of China's exports currently come from rural (individual and collectively owned) industries and from foreign-invested ventures. The foreign ties these provinces and non-state-owned factories developed with the outside world prior to Beijing's reassertion of central control in mid-1989 enabled these provinces to weather the austerity program; without these foreign markets, Beijing's grip would have been all the tighter. As Beijing's influence over the regions and sectors most closely integrated into the global economy has diminished, these regions and sectors have become increasingly sensitive to global economic conditions. Revocation of China's MFN trading status would cause unemployment to rise and factory losses to mount in export-producing regions.

#### E. Conclusion

Those who engineered the violence in China in June 1989 are unlikely to bear the economic costs associated with the denial of MFN. Instead, those who suffer would be American businesses and their employees, American consumers, and the people of Hong Kong and the progressive areas of China.

China's opening to the outside world over the past decade has accelerated growth in the non-state sectors of the economy; resulted in strong links between China's coastal regions and the global economy that have enabled this reformist region to weather Beijing's periodic efforts to reimpose central government control over economic activity; and introduced market concepts to a generation of Chinese managers involved in joint ventures, trade negotiations, and training in the West. For this process to continue, China's most-favored-nation treatment in the United States is essential.

### PART III: HUMAN RIGHTS

Human rights concerns have been at the heart of our relationship with the PRC since the tragic events of June 1989. Every high-level meeting since that time has at least touched on human rights issues, and several -- such as the December 1990 visit to China by Assistant Secretary Schifter -- have been devoted exclusively to them. We have consistently stressed to the Chinese leadership that there can be no return to the kind of relationship we enjoyed before 1989 without substantial improvements in China's human rights practices.

Our overall approach on human rights issues has consisted of:

o Public expressions of concern.

-- President Bush condemned the brutal suppression of demonstrations in Tiananmen Square in June 1989, the first world leader to do so. He declared May 13, 1990 a National Day in Support of Freedom and Human Rights in commemoration of the 1989 demonstrations, and issued another statement to mark the anniversary of the crackdown in 1991.

-- In our human rights reports for 1989 and 1990, we strove to be fair but hard-hitting, and as accurate as available information would allow. These reports have drawn high praise from human rights groups, and harsh condemnations from the Chinese government.

-- The State Department issued a statement on January 9, 1991 condemning the trials of nonviolent dissidents.

-- In April 1991 the President met the Dalai Lama at the White House to demonstrate our respect for His Holiness' nonviolent approach to conflict resolution and our concern for human rights problems in Tibet.

o Suspension of bilateral programs. On June 6 and June 20, 1989, the President announced the suspension of a number of bilateral programs and changes in U.S. approach to multilateral issues until the human rights climate in China improved. Those suspensions generally remain in effect.

-- A multitude of high-level exchange visits that would normally have taken place since 1989 have been canceled. Only a very limited number of visits at and above Assistant Secretary level have been approved on a case-by-case basis, and only when they addressed issues of key concern to the U.S. like human rights, nonproliferation, unfair trade practices and narcotics.

Dear Senator Baucus:

I appreciated receiving your views on the importance of renewing China's most-favored-nation (MFN) trade status while also seeking to achieve progress with the Chinese on issues of vital concern to the American people. We clearly share the same goals. We want to see China return to the path of reform, show greater respect for human rights, adhere to international norms on weapons sales, and practice fair trade. China should contribute to international stability and not detract from it.

You rightly note that withdrawing MFN would hurt not only Americans but also the people of Hong Kong and the millions in China who are working for progressive change. Continuing MFN is essential to protect American consumers and exporters, and to support the economic forces that have been driving reform in China for more than a decade.

From the start of the U.S.-China relationship in the 1970s, it enjoyed strong bipartisan support. Your letter is in that fine tradition. Building on the three U.S.-China communiques, U.S. interaction with the government and people of China has produced demonstrable progress. That interaction must continue despite the recent severe setbacks. Nevertheless, I support the view that strong measures are needed to address our concerns in China and have not hesitated to use them in a targeted fashion. To underscore our deep dismay about human rights violations, I have kept in place a number of sanctions since the Tiananmen Square crackdown, affecting arms sales, high-level contacts, U.S. economic programs and U.S. support for World Bank lending to China.

The U.S. is currently the only Western democracy maintaining its Tiananmen sanctions and refusing to normalize relations until China makes substantial progress on human rights. For example, while our allies and other World Bank members have supported all of the last fifteen bank loans to China, we have declined to support nine because the loans would not serve basic human needs.

At the London Summit, I intend to raise China's human rights practices with our G-7 allies and encourage them to continue to stress to China's leaders, as we have repeatedly, the importance that democratic governments attach to human rights. I will make clear that the U.S. will continue its policy of supporting only those multilateral development loans for China that serve basic human needs. I will also strongly urge that any lending to China help to promote market-oriented economic reform.

To advance our nonproliferation objectives, I recently authorized a number of steps aimed at engaging the Chinese on their weapons transfer policies and making clear our dissatisfaction with transfers that contribute to regional instability. The Under Secretary of State for International Security Affairs recently traveled to Beijing for a detailed discussion of nonproliferation issues, including our specific

IN PROGRESS: ROLL NO. 205 YEA-AND-NAY TIME REMAINING FINAL  
 AUTHOR(S):  
 ON PASSAGE

REGARDING THE EXTENTION OF MOST FAVORED NATION TREATMENT TO  
 THE PRODUCTS OF CHINA

	H R 2212			
	YEA	NAY	PRES	NOT VOTING
DEMOCRATIC	230	31		6
REPUBLICAN	82	81		3
INDEPENDENT	1			
TOTALS	313	112		9

TIME REMAINING FINAL

Y Abercrombie	Y Bruce	Y DeLauro
Y Ackerman	Y Bryant	Y Dellums
Y Andrews (ME)	Y Bustamante	Y Derrick
Y Andrews (NJ)	Y Byron	Y Dicks
Y Andrews (TX)	Y Campbell (CO)	Y Dingell
Y Annunzio	Y Cardin	Y Dixon
Y Anthony	Y Carper	Y Donnelly
Y Aspin	Y Carr	Y Dooley
Y Atkins	Y Chapman	Y Dorgan (ND)
Y Bacchus	Y Clay	Y Downey
Y Barnard	Y Clement	Y Durbin
Y Beilenson	Y Coleman (TX)	Y Dwyer
Y Bennett	Y Collins (IL)	Y Dymally
Y Berman	Y Collins (MI)	Y Early
Y Bevill	Y Condit	Y Eckart
Y Bilbray	Y Conyers	Y Edwards (CA)
Y Bonior	Y Cooper	Y Edwards (TX)
Y Borski	Y Costello	Y Engel
Y Boucher	Y Cox (IL)	Y English
Y Boxer	Y Coyne	Y Erdreich
Y Brewster	Y Cramer	Y Espy
Y Brooks	Y Darden	Y Evans
Y Browder	Y DeFazio	Y Fascell
ROLL NO. 205	DEMOCRATIC - YEAS -	
Y Fazio	Y Hubbard	Y Levin (MI)
Y Feighan	Y Huckaby	Y Levine (CA)
Y Flake	Y Hughes	Y Lewis (GA)
Y Foglietta	Y Hutto	Y Lipinski
Y Ford (MI)	Y Jefferson	Y Lloyd
Y Ford (TN)	Y Jenkins	Y Long
Y Frank (MA)	Y Jones (GA)	Y Lowey (NY)
Y Frost	Y Jones (NC)	Y Manton
Y Gaydos	Y Jontz	Y Markey
Y Gejdenson	Y Kanjorski	Y Martinez
Y Gephardt	Y Kaptur	Y Mavroules
Y Gibbons	Y Kennedy	Y Mazzoli

Y	Gordon	Y	Kennelly	Y	McCloskey
Y	Gray	Y	Kildee	Y	McCurdy
Y	Hall (OH)	Y	Klecicka	Y	McDermott
Y	Harris	Y	Kolter	Y	McHugh
Y	Hatcher	Y	Kostmayer	Y	McMillen (MD)
Y	Hayes (IL)	Y	LaFalce	Y	McNulty
Y	Hefner	Y	Lancaster	Y	Mfume
Y	Hertel	Y	Lantos	Y	Miller (CA)
Y	Hochbrueckner	Y	LaRocco	Y	Mineta
Y	Horn	Y	Lehman (CA)	Y	Mink
Y	Hoyer	Y	Lehman (FL)	Y	Moakley

ROLL NO. 205                    DEMOCRATIC - YEAS - CONTINUED

Y	Mollohan	Y	Payne (VA)	Y	Sawyer
Y	Moody	Y	Pease	Y	Scheuer
Y	Moran	Y	Pelosi	Y	Schroeder
Y	Mrazek	Y	Penny	Y	Schumer
Y	Murphy	Y	Perkins	Y	Serrano
Y	Nagle	Y	Peterson (FL)	Y	Sharp
Y	Neal (MA)	Y	Pickle	Y	Sikorski
Y	Neal (NC)	Y	Poshard	Y	Sisisky
Y	Nowak	Y	Price	Y	Skaggs
Y	Oakar	Y	Rahall	Y	Skelton
Y	Oberstar	Y	Rangel	Y	Slattery
Y	Obey	Y	Ray	Y	Slaughter (NY)
Y	Olin	Y	Reed	Y	Smith (FL)
Y	Olver	Y	Richardson	Y	Solarz
Y	Ortiz	Y	Roe	Y	Spratt
Y	Orton	Y	Rose	Y	Staggers
Y	Owens (NY)	Y	Rostenkowski	Y	Stallings
Y	Owens (UT)	Y	Rowland	Y	Stark
Y	Pallone	Y	Roybal	Y	Stokes
Y	Panetta	Y	Russo	Y	Studds
Y	Parker	Y	Sabo	Y	Swett
Y	Patterson	Y	Sangmeister	Y	Swift
Y	Payne (NJ)	Y	Savage	Y	Synar

ROLL NO. 205                    DEMOCRATIC - YEAS - CONTINUED

Y	Tallon
Y	Tanner
Y	Thomas (GA)
Y	Thornton
Y	Torricelli
Y	Towns
Y	Traficant
Y	Traxler
Y	Unsoeld
Y	Valentine
Y	Vento
Y	Visclosky
Y	Volkmer
Y	Washington
Y	Waters
Y	Waxman
Y	Weiss
Y	Wheat
Y	Wilson
Y	Wise
Y	Wolpe
Y	Yates
Y	Yatron

ROLL NO. 205                    DEMOCRATIC - YEAS - CONTINUED

N	Alexander	N	Roemer
N	Anderson	N	Sarpalius
N	Applegate	N	Stenholm
N	Brown	N	Tauzin
N	Geren	N	Taylor (MS)
N	Glickman	N	Torres
N	Gonzalez	N	Williams
N	Guarini	N	Wyden
N	Hall (TX)		
N	Hamilton		
N	Hayes (LA)		
N	Hoagland		
N	Johnson (SD)		
N	Johnston		
N	Kopetski		
N	Laughlin		
N	Luken		
N	Matsui		
N	Montgomery		
N	Murtha		
N	Natcher		
N	Peterson (MN)		
N	Pickett		

ROLL NO.	205	DEMOCRATIC -	NAYS	-
-	AuCoin			
-	de la Garza			
-	Foley			
-	Jacobs			
-	Smith (IA)			
-	Whitten			

ROLL NO.	205	DEMOCRATIC -NOT VOTING	-
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Y	Ballenger	Y	Gilman	Y	Miller (WA)
Y	Barton	Y	Gingrich	Y	Molinari
Y	Bentley	Y	Goodling	Y	Moorhead
Y	Boehlert	Y	Green	Y	Morella
Y	Broomfield	Y	Gunderson	Y	Porter
Y	Bunning	Y	Hancock	Y	Pursell
Y	Burton	Y	Hefley	Y	Ramstad
Y	Coble	Y	Henry	Y	Ravenel
Y	Coughlin	Y	Herger	Y	Regula
Y	Cox (CA)	Y	Hobson	Y	Ridge
Y	Cunningham	Y	Horton	Y	Riggs
Y	Dannemeyer	Y	Hyde	Y	Ritter
Y	DeLay	Y	James	Y	Rogers
Y	Dickinson	Y	Kasich	Y	Rohrabacher
Y	Doolittle	Y	Klug	Y	Ros-Lehtinen
Y	Dornan (CA)	Y	Kyl	Y	Roukema
Y	Duncan	Y	Lagomarsino	Y	Santorum
Y	Edwards (OK)	Y	Lewis (FL)	Y	Saxton
Y	Emerson	Y	Machtley	Y	Schaefer
Y	Fish	Y	McCollum	Y	Schiff
Y	Gallegly	Y	McEwen	Y	Schulze
Y	Gallo	Y	McGrath	Y	Sensenbrenner
Y	Gilchrest	Y	McMillan (NC)	Y	Shuster
ROLL NO. 205		REPUBLICAN	- YEAS	-	
Y	Smith (NJ)				
Y	Smith (TX)				
Y	Snowe				
Y	Solomon				
Y	Spence				
Y	Stearns				
Y	Taylor (NC)				
Y	Upton				
Y	Walker				
Y	Walsh				
Y	Weldon				
Y	Wolf				
Y	Zeliff				

ROLL NO. 205		REPUBLICAN	- YEAS	- CONTINUED	
N	Allard	N	Franks (CT)	N	McCandless
N	Archer	N	Gekas	N	McCrery
N	Armey	N	Gillmor	N	McDade
N	Baker	N	Goss	N	Meyers
N	Barrett	N	Gradison	N	Michel
N	Bateman	N	Grandy	N	Miller (OH)
N	Bereuter	N	Hammerschmidt	N	Morrison
N	Bilirakis	N	Hansen	N	Myers
N	Bliley	N	Hastert	N	Nichols
N	Boehner	N	Holloway	N	Nussle
N	Callahan	N	Houghton	N	Oxley
N	Camp	N	Ireland	N	Packard

N Campbell (CA)  
N Chandler  
N Clinger  
N Coleman (MO)  
N Combest  
N Crane  
N Davis  
N Dreier  
N Ewing  
N Fawell  
N Fields

N Johnson (CT)  
N Johnson (TX)  
N Kolbe  
N Leach  
N Lent  
N Lewis (CA)  
N Lightfoot  
N Livingston  
N Lowery (CA)  
N Marlenee  
N Martin

N Paxon  
N Petri  
N Quillen  
N Rhodes  
N Rinaldo  
N Roberts  
N Roth  
N Shaw  
N Shays  
N Skeen  
N Slaughter (VA)

ROLL NO. 205

REPUBLICAN - NAYS -

N Smith (OR)  
N Stump  
N Sundquist  
N Thomas (CA)  
N Thomas (WY)  
N Vander Jagt  
N Vucanovich  
N Weber  
N Wylie  
N Young (AK)  
N Young (FL)  
N Zimmer

ROLL NO. 205

REPUBLICAN - NAYS - CONTINUED

- Hopkins  
- Hunter  
- Inhofe

ROLL NO. 205

REPUBLICAN -NOT VOTING -

**MCDONNELL DOUGLAS**

McDonnell Douglas Corporation

RONALD K. SABLE  
Staff Vice President, Legislative Affairs

July 2, 1991

The Honorable Jim Dyer  
Deputy Assistant to the President  
The White House  
Washington, D.C. 20500

Dear Jim:

As we discussed, MFN status is important to McDonnell Douglas, but it is also the right thing to do.

Enclosed is a copy of a recent letter from our chairman, together with a list of recipients. We are working it hard. Let me know how I can help.

Sincerely,



RKS:ec

Enclosures (2)

copy of JFM 24 June ltr

list of Senate/House recipients

*Jim - the list covers our plants and members  
- the Chairman knows well. Like Logan.  
- other letters have been committee specific*

*McDonnell Douglas Corporation*

24 June 1991

**JOHN F. McDONNELL**  
*Chairman and Chief Executive Officer*

The Honorable Max Baucus  
United States Senate  
Washington, D.C. 20510-2602

Dear Senator Baucus:

Over the past several weeks, I have been asked to explain the impact of the President's extension of Most Favored Nation (MFN) trade status to China on McDonnell Douglas, our employees, and our current business activities in the PRC. Clearly, the impact is significant, and McDonnell Douglas strongly supports the President's recent decision to extend MFN trade status to China without additional conditions.

Our support of the President's decision is derived from the following: Adding more conditions to China's MFN trade status will have an adverse impact upon our company's ability to continue existing programs with China; it will hamper our ability to compete for future programs; and it will slow the dynamic exchange of ideas with the Chinese people.

McDonnell Douglas involvement with the PRC goes back to 1975 when we submitted our first proposal to the Chinese government for co-production of our mid-size MD-80 commercial transport. After years of extensive review and negotiations, a license and co-production agreement was signed in April 1985. In July 1987, McDonnell Douglas and Shanghai Aviation International Corporation delivered the first of 25 MD-80 aircraft to be assembled in the Shanghai facility.

This cooperative venture, worth approximately \$1 billion, still represents the largest U.S.-China technology program, both in dollar value and technology content. To date, 22 aircraft have been delivered from Shanghai, and the Chinese recently contracted for 10 additional MD-80 kits. In addition to our MD-80 program, China Eastern Airlines has placed firm orders for five MD-11 aircraft which will be produced at our facility in Long Beach, California.

McDonnell Douglas is also involved in negotiations with key Chinese officials to develop a 150-aircraft program for China's domestic airline system. This initiative, known as the Trunk Aircraft program, will be a follow-on to our existing MD-80 co-production program and will extend over a 10-year period. It has a potential export value of approximately \$7 billion to the United States.

Given our extensive activity with China, our reasons for supporting China's MFN trade status become clear. First, I believe that adding conditions to MFN renewal will make long-term planning virtually impossible for American businesses operating in China. Conditions could place all future McDonnell Douglas business in China in jeopardy. The investment vacuum created by American companies' withdrawal from the Chinese marketplace will surely be filled by European and Japanese companies looking for inroads into that vast market.

Senator Baucus  
Page 2  
24 June 1991

Secondly, denial of MFN trade status will increase tariffs on aircraft components imported into the United States from China. This will increase our manufacturing costs by \$75,000 to \$100,000 per aircraft, which will hamper our competitiveness in the global market. Last year, American aerospace was responsible for \$26 billion in exports, and a continuation of this positive balance of trade is predicated on America's ability to compete with the heavily subsidized Airbus consortium.

Finally, I am convinced that trade is an effective means of keeping the doors of China open to Western ideas and values. I believe that trade with the West has played a significant role in the tremendous change that has occurred in China the past decade.

In closing, I ask that you support the President's initiative to extend MFN trade status to China and oppose additional conditions. Please feel free to call me or our Washington office (703-553-3801) if you have additional questions.

Sincerely,



John F. McDonnell  
Chairman and Chief Executive Officer  
McDonnell Douglas Corporation

Senator Max Bacus  
Senator Lloyd Bentsen  
Senator Christopher "Kit" Bond  
Senator David L. Boren  
Senator Hank Brown  
Senator Dale Bumpers  
Senator Alan Cranston  
Senator John C. Danforth  
Senator Dennis DeConcini  
Senator Christopher J. Dodd  
Senator Wyche Flower, Jr.  
Senator Jake Garn  
Senator John Glenn  
Senator Bob Graham  
Senator Phil Gramm  
Senator Orrin G. Hatch  
Senator Richard G. Lugar  
Senator Connie Mack  
Senator John McCain  
Senator Howard M. Metzenbaum  
Senator Frank Murkowski  
Senator Don Nickles  
Senator Sam Nunn  
Senator David Pryor  
Senator John Seymour  
Senator Timothy E. Wirth

Rep. Bill Alexander  
Rep. Glenn M. Anderson  
Rep. Michael A. Andrews  
Rep. Jim Bacchus  
Rep. Howard L. Berman  
Rep. Jack Brooks  
Rep. Ben Nighthorse Campbell  
Rep. William L. (Bill) Clay  
Rep. E. Thomas Coleman  
Rep. Jerry F. Costello  
Rep. Christopher Cox  
Rep. Bill Emerson  
Rep. Elton Gallegly  
Rep. Richard A. Gephardt  
Rep. Mel Hancock  
Rep. James V. Hansen  
Rep. Joan Kelly Horn  
Rep. James M. Inhofe  
Rep. John R. Kasich  
Rep. Jon Kyl  
Rep. Mel Levine  
Rep. Bill Orton  
Rep. Wayne Owens  
Rep. John J. Rhodes, III  
Rep. Dana Rohrabacher  
Rep. J. Roy Rowland  
Rep. Ike Skelton  
Rep. Bob Stump  
Rep. William M. Thomas  
Rep. Harold L. Volkmer  
Rep. Alan Wheat



**North American Export Grain  
Association Incorporated**

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**PREPARED STATEMENT OF STEVEN A. MCCOY  
PRESIDENT  
NORTH AMERICAN EXPORT GRAIN ASSOCIATION**

**before the  
SUBCOMMITTEE ON TRADE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES**

**June 12, 1991**

**PREPARED STATEMENT OF STEVEN A. MCCOY  
PRESIDENT  
NORTH AMERICAN EXPORT GRAIN ASSOCIATION**

**before the  
SUBCOMMITTEE ON TRADE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES**

**June 12, 1991**

**INTRODUCTION**

The North American Export Grain Association (NAEGA) takes this opportunity to join U.S. agriculture's voice together with the many other interests represented here today in strong support of the President's decision to renew most favored nation (MFN) trade status for the People's Republic of China (PRC). NAEGA is the national association of U.S. grain and oilseed exporting companies and cooperatives.

Few issues that the Congress will address this year will have as immediate and direct an impact on U.S. agriculture as the issue before the Committee today. The PRC represents U.S. agriculture's 11th largest market, with total sales in excess of \$2.2 billion since 1989. U.S. wheat sales to China since 1989 have topped \$1.5 billion; PRC purchases in 1989 represented fully 20% of all U.S. wheat exported that year. The PRC is a major market for U.S. commodities such as cotton, corn and forestry and tobacco products. In addition, agriculture-related exports of fertilizer and paper accounted for an additional \$1.2 billion in sales in the period 1989 to the present.

Sales of these agricultural and related commodities and products have traditionally been among the largest trade categories in our bilateral trade with the PRC and accounted for 37% of all U.S. exports to the PRC in 1989. These exports would be imperilled -- and could be lost altogether -- if PRC MFN status is denied or otherwise circumscribed by the Congress, such as some currently propose.

**PRC RETALIATION AGAINST U.S. FARM EXPORTS LIKELY**

PRC retaliation in the event of disruption of MFN status should not be considered a matter in doubt. Retaliation against U.S. exports will almost certainly and immediately follow such action. The only question, therefore, is the nature and severity of the retaliation; and against whom in the United States the retaliation will be directed.

Past PRC retaliation against the U.S. in major bilateral trade disputes has historically (and disproportionately) been directed against U.S. farm exports. As previously indicated, U.S. agricultural sales to the PRC currently are among our Nation's leading exports to that country. Consequently, such sales present the most substantial and likely target for retaliation in response to unilateral U.S. government action designed to disadvantage or damage PRC commerce in the U.S. market.

#### **U.S. AGRICULTURE HAS LONG-TERM STAKE IN PRC MARKET**

The PRC market represents one of American agriculture's best future long-term growth potential markets. The PRC's share of world gross national product (GNP) has grown rapidly in recent years. Its share of total world population (21% in 1988) alone makes its long-term future a vital concern to U.S. agriculture.

The dual impact of rising income and population has the potential to substantially fuel PRC demand for U.S. agricultural commodities and products well into the next century. Basic commodity production in the PRC (including wheat, corn, millet, potatoes and soybeans) has levelled off at approximately 380 to 390 million metric tons (MMT) during the decade of the 1980s. At the same time, demand for basic food and feedstuffs has grown dramatically.

The U.S. share of this growing market would be arrested, and could be extinguished altogether, if normal bilateral trade is disrupted. The result would be to offer up this market to our trade competition, particularly to European Community (EC) countries, Australia, Canada, Argentina, and other agricultural exporting nations.

U.S. agriculture has, over a decade of hard-won sacrifice in the direction of greater global competitiveness, earned a right to unrestricted access to the PRC market. Furthermore, the Chinese people themselves have a right to the rising standard of living their imports of U.S. agricultural commodities and products allow.

Denial or disruption of MFN status would be a betrayal of trust with our Nations' farmers and exporters and progressive elements of the Chinese people alike. It would not, in our view, serve in any fashion to modify the policies of the PRC government. Indeed, if history is judge, it may result in a hardening, and not a softening, of current PRC government attitudes.

#### **DENIAL OF PRC MFN A DE FACTO GRAIN EMBARGO**

Regarding sanctions, there is no middle ground. Advocates of conditionality applied to PRC MFN status must understand that this policy is not risk-free or cost-free or without potential penalty to the United States. The penalty to U.S. agriculture could be

severe and long-lasting. Indeed, disruption of MFN may be tantamount to imposition of a unilateral U.S. grain embargo against the PRC if, as expected, the PRC retaliates through suspension of its imports of U.S. farm commodities and products.

U.S. agriculture's past bitter experience with grain embargoes imposed to achieve foreign policy objectives should be argument enough for avoidance of similar action with respect to PRC MFN. Unilateral trade sanctions rarely work. More often than not, they fail to achieve their intended objective at a cost of substantial hardship for affected domestic U.S. interests.

The 1980 grain embargo against the USSR resulted in a loss of perhaps \$11 billion in value to the U.S. economy. It reduced U.S. export sales and lowered farm prices. It undermined confidence in the United States as a dependable supplier and encouraged the Soviets to seek alternate sources of supply from U.S. competitors in the international marketplace.

Denial or disruption of MFN status to the PRC, if followed by PRC agricultural import restrictions directed at the U.S., would have all the same serious ramifications for American agriculture. It would serve the interests of our trade competition. It would deny the U.S. the leverage provided by on-going amicable trade relations. It would undermine Chinese confidence in the United States as a reliable trading partner and diminish the U.S. role in the PRC market at the very moment that market presents the greatest possible future potential for U.S. agriculture.

### CONCLUSION

We should seek to avoid the mistakes of the past. MFN status for the PRC should not be used as a tool to achieve U.S. foreign policy objectives.

Denial or disruption of MFN would not result in a modification of PRC government policy. Indeed, the adverse economic impact of that action would be felt greatest by those elements of the PRC population least capable of bearing the brunt of the interruption in trade. These elements are, not by accident, the very elements within the PRC economy who have been most instrumental in advancing the goals of liberalization and democratization which we in the United States have so strongly supported. It would be a mistake to turn our back on them -- and the Chinese people in general -- at this significant juncture in our evolving relationship with the PRC.

We have attempted in this testimony to express agriculture's many concerns regarding possible denial of MFN status to the PRC and the potential impact of such action on U.S. agriculture. The potential costs involved are great; the potential benefits questionable at best.

Congress should resist efforts to deny MFN status to the PRC. Trade should be held free of threat of sanction and our long-term relationship with China allowed to develop and grow, in the best interests of both our Nation and the Chinese people.

We have attached to this testimony a copy of a recent CRS study which analyzes the likely impact of PRC retaliation in the event of denial or disruption of MFN. The study predicts a substantial loss in farm income, a rise in government agricultural spending, and a declining market share for U.S. commodities in world markets. We concur with these findings; and offer the report as further evidence to be considered by the Committee and Congress.

I am happy to answer any questions you may have.

# CRS Report for Congress

Congressional Research Service • The Library of Congress

## China's Most-Favored-Nation Status: U.S. Wheat Exports

Susan B. Epstein  
Specialist in Agricultural Policy  
Environment and Natural Resources Policy Division

### SUMMARY

On May 27, 1991, President Bush announced that he intends to renew China's Most-Favored-Nation or MFN<sup>1</sup> (nondiscriminatory) trading status under the provisions of the freedom-of-emigration (Jackson-Vanik) amendment. If recommended by the President, such renewal is automatic and does not require specific congressional approval. It can be blocked, however, by the enactment of a joint resolution of disapproval considered under a special fast-track procedure, which must be completed within about 3 months. The Congress can also restrict or deny outright MFN status to China by specific legislation considered under regular procedure. Some Members are calling for such action because of China's human rights violations in recent years and because China has been selling nuclear technology to countries such as Pakistan and Algeria. (For more details on denial procedure, see IB90107.)

Some trade experts contend that China may retaliate by prohibiting imports from the United States if MFN is denied this year. While China is a major market for a wide array of U.S. products, it is especially important for U.S. agriculture, particularly wheat. In the past 3 years, wheat amounted to between 60 and 92 percent of China's agricultural imports from the United States. Furthermore, China is often among the largest importers of U.S. wheat, buying as much as 20 percent of total U.S. wheat exports in some years.

As Congress debates whether or not to support the extension of MFN status to China, an examination of possible effects of the outcome of this debate on the U.S. wheat sector might be useful.

### BACKGROUND

China is considered a major U.S. agricultural export market, although its rank fluctuates widely from year-to-year. For example, in 1986, it ranked 60th; the next year, it ranked 17th. In 1989 China was the eighth largest foreign market for U.S. agricultural exports, purchasing more than \$1.4 billion worth

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<sup>1</sup>Most-Favored-Nation status means that trade privileges or concessions that the United States grants to any nation would automatically apply to the MFN country.



of products. Just last year, China ranked 11th among U.S. foreign agricultural markets, importing about \$800 million worth of agricultural products.

China imports an array of agricultural goods including wheat, corn, soybeans, cotton, livestock products, horticultural products, even wine and tobacco from the United States each year. Wheat, by far, makes up the largest portion of U.S. agricultural exports to China. In 1990, wheat accounted for more than 60 percent of U.S. exports to China; in 1989, it accounted for 80 percent; and in 1988, it accounted for 92 percent. The type of wheat China typically imports from the United States is high quality protein wheat such as hard red spring or winter wheat for use as flour for bread and other baked goods.

U.S. wheat exports often make up a large portion of China's market share; for example, U.S. wheat exports held more than 30 percent of China's market share in 7 out of the past 10 years. However, on a year-to-year basis, both quantity of wheat exports and U.S. market share of China's wheat market fluctuate significantly. This supports the claim by some agricultural economists that the United States is a residual supplier of wheat to China. (See figure 1.)

China has participated in two U.S. agricultural export promotion programs in recent years--the Export Enhancement Program (EEP) and the Targeted Export Assistance (TEA) program. China has never imported U.S. commodities under the export credit guarantee programs (GSM-102 and GSM-103), although it is eligible to participate in both. China's eligibility to participate in the P.L. 480 concessional sales program has not yet been established by the Administration.<sup>2</sup>

Since 1987, when China first became eligible for EEP commodities, it has imported more than 17.5 million metric tons of EEP-subsidized wheat. The Targeted Export Assistance (TEA) program, currently named the Market Promotion Program (MPP), has promoted in China more than \$2 million worth of exports of wheat, feed grains, plywood, seeds, table grapes, ginseng, meat and meat by-products, tobacco, and wine.

### **THE U.S. WHEAT SECTOR AND EXTENDING CHINA'S MFN STATUS<sup>3</sup>**

A best case scenario for the wheat sector includes the assumption that China's MFN status will be extended, and China will continue buying U.S.

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<sup>2</sup>Congress gave the President authority to designate China as a "friendly country" and determine if China satisfies the criteria for participating in P.L. 480's Title I program. U.S. Congress. Senate. Report of the Committee on Foreign Relations, International Security Enhancement Act of 1982, 97th Congress, 2d Session, May 28, 1982, pp. 38-39.

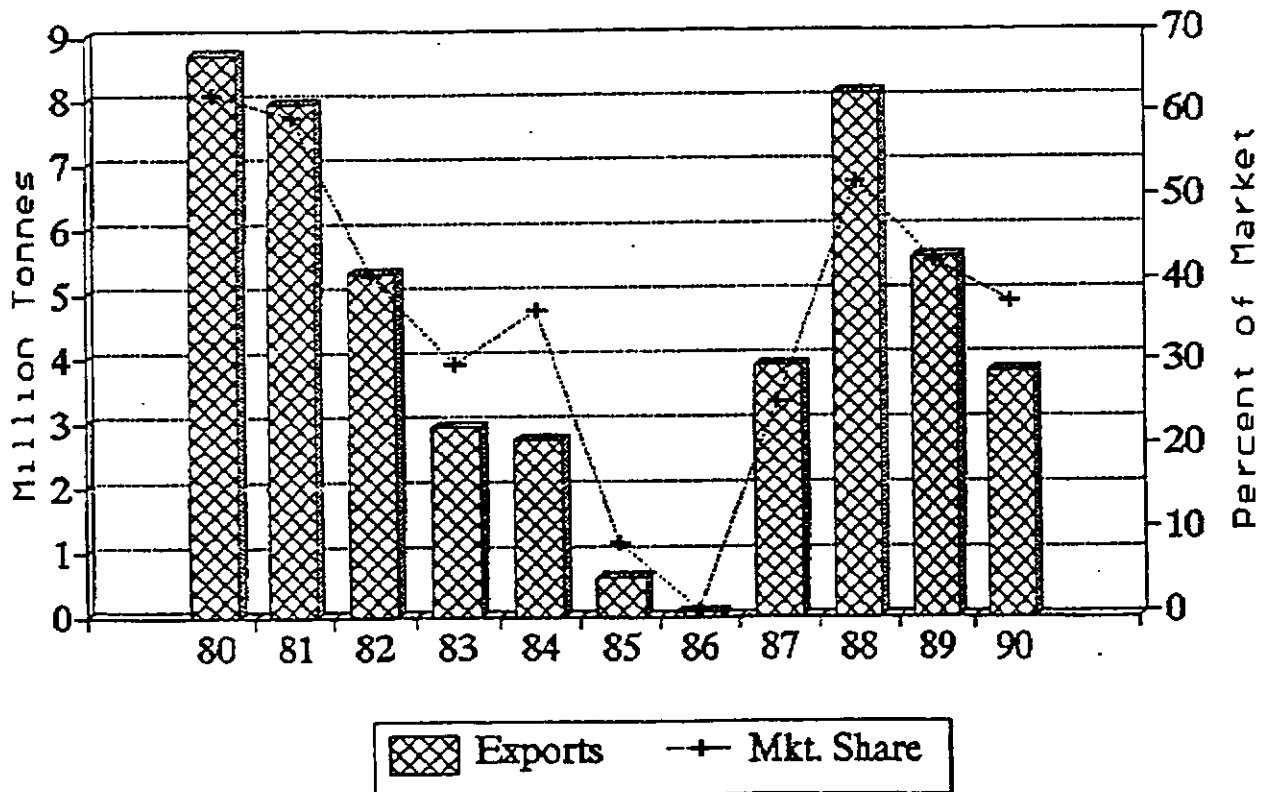
<sup>3</sup>Some of the estimates in this section were calculated by the WEFA Group, a consulting firm located in Bala Cynwyd, Pennsylvania. For this analysis, years referred to in this section are wheat crop years--July/June years.

wheat. So far this year, the United States has shipped a total of 3.8 million metric tons of wheat to China.<sup>4</sup>

A worst case scenario is based on the assumption that China is denied MFN status this year and will retaliate by not importing any wheat from the United States. For the purpose of this analysis, the loss of U.S. wheat export sales was set at 4.2 million metric tons (or about 155 million bushels), which is the long run average of China's wheat imports from the United States. Important to note is that other wheat producing countries currently have wheat carryover stocks that are sufficient to fill China's lost supplies from the United States, if China chose to reject U.S. wheat exports altogether. (See figure 2.) Thus, while trading patterns would likely change over time, worldwide wheat export and import patterns would not have to change in the current year.

Figure 1

## US Wheat Exports to China Volume & Market Share

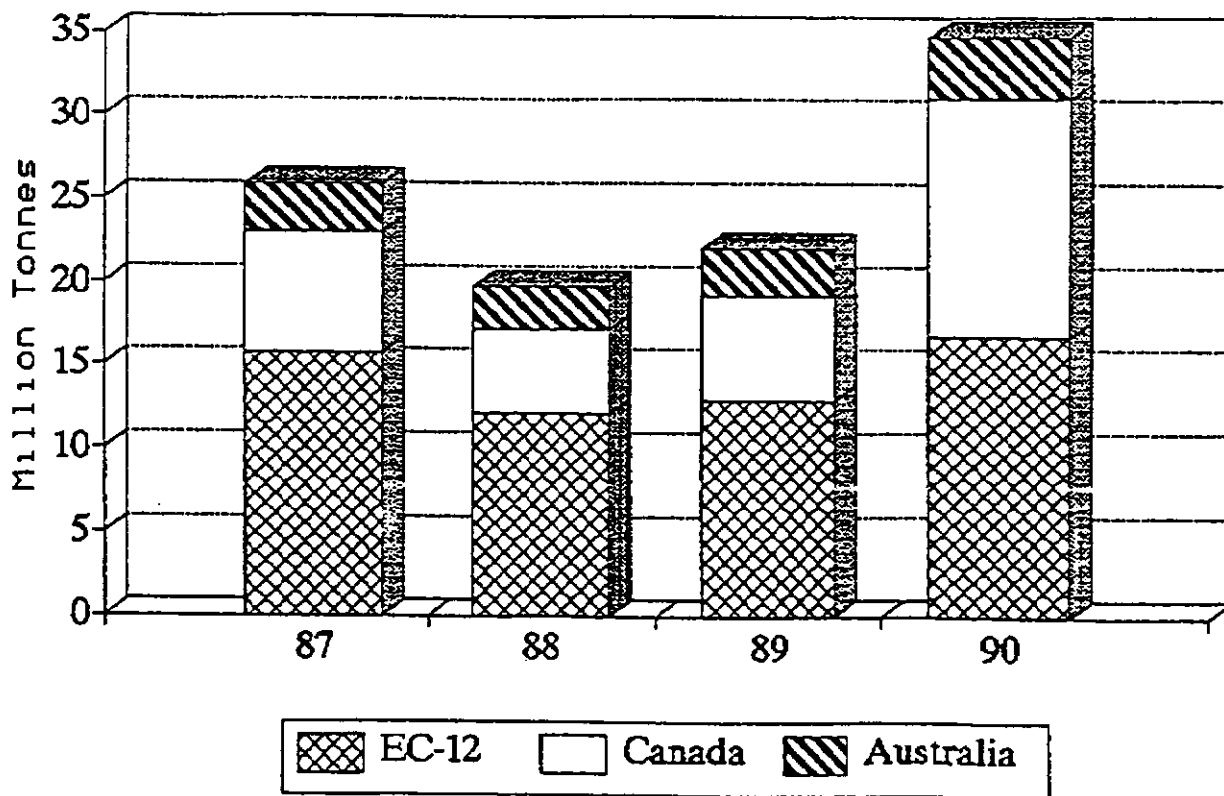


Source: Agriculture Service, The WEFA Group, May 17, 1991.

<sup>4</sup>Telephone conversation with Renee Schwartz, Grain and Feed Division, Foreign Agricultural Service, USDA, May 20, 1991.

Figure 2

# Wheat Carryover Stocks Selected Competitors



Source: Agriculture Service, The WEFA Group, May 17, 1991.

According to WEFA analysis, in the worst case scenario, the U.S. wheat sector would experience a net loss of 89 million bushels in sales over the best case scenario. Export sales would decline by 137 million bushels, but domestic sales would increase by 48 million bushels, since the lower export demand would result in a reduction in wheat prices. The loss of exports amounting to 137 million bushels is less than the 155 million bushels assumed to be lost in sales to China, because other foreign markets would import more than they otherwise would have due to lower wheat prices. (See table 1.)

If China refuses to buy U.S. wheat, the resulting weaker demand and larger U.S. stocks could combine to reduce U.S. wheat prices. (In contrast, however, world wheat prices may rise initially, since closing China's market off from the U.S. supply would effectively raise demand for non-U.S. wheat and reduce the world supply.) The U.S. wheat price is estimated to drop by 27 cents per bushel or about 10 percent from the levels expected in the best case scenario. In addition, psychological effects of losing one of our biggest foreign wheat markets might push prices down even further in future time periods.

U.S. wheat ending stocks would drop from year earlier levels in either scenario. In the best case of renewing China's MFN status, the 1991/92 wheat stocks are expected to drop by 267 million bushels from 1990/91 levels. In the worst case scenario of not extending MFN and loss of the China wheat market, wheat ending stocks are expected to drop by 178 million bushels.

Reduced wheat sales and lower prices would reduce farm cash receipts and aggregate farm income. Income of wheat producers that participate in price support program (80 percent) would be supported by Government deficiency payments. Therefore, Government costs would increase if China refused to purchase U.S. wheat. Because of the triple-base feature of the 1991 program, wheat farmers would lose income from the marketing of wheat from nonpayment acres at the lower wheat price. Other crop farmers might face more competition if, in the next crop year, wheat farmers plant other crops such as soybeans and cotton, causing the price of those commodities to decline.

It is possible to estimate potential Government and farm losses if wheat prices were to have dropped last year by 27 cents per bushel. If this worst case scenario had occurred last year, based on USDA's 1990 U.S. wheat production level estimates of 2,739 million bushels, and using USDA's estimates that 80 percent of wheat acreage was covered under the wheat program, the potential increased cost to the Government in deficiency payments might have been as much as \$592 million in that crop year. Furthermore, wheat farms might have lost an additional \$148 million in market receipts last year. Therefore, estimates of the worst case scenario using 1990 wheat production data result in a total Government and wheat sector cost estimate of more than \$740 million. Although 1991 production levels and program participation data currently are unavailable, and wheat farmers may make decisions and adjustments over the crop year that would change this scenario somewhat, the above calculations suggest the potential losses that might be attributed to denying China MFN status.

Table 1

**Wheat Situation  
1991/1992**  
million bushels

	With Most Favored Nation	Without Most Favored Nation
Beginning Stocks	893	893
Production	2105	2105
Total Supply	2998	2998
Domestic Use	1214	1262
Exports	1158	1021
Total Use	2372	2283
Ending Stocks	626	715
Kansas City Price	3.17	2.90
Farm Price	2.86	2.69

Source: Agriculture Service, The WEFA Group, May 17, 1991.



**North American Export Grain  
Association Incorporated**

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June 11, 1991

The Honorable Dan Rostenkowski  
Chairman, Committee on Ways and Means  
1102 Longworth House Office Building  
Washington, DC 20515

Dear Congressman Rostenkowski,

The North American Export Grain Association (NAEGA) -- representing the Nation's grain and oilseeds exporting companies and cooperatives -- takes this opportunity to urge you to support the President's decision to unconditionally extend most favored nation (MFN) status to the People's Republic of China (PRC).

Neither denial nor conditional extension of PRC MFN, such as currently being advocated in Congress, would, in our view, have any serious impact on domestic policies of the PRC government, while it would almost certainly have dire consequences for U.S. industries dependent on U.S.-PRC trade. U.S. agriculture has accrued in excess of \$2 billion in export earnings from PRC purchases of U.S. agricultural commodities and products in the last two years alone. These exports, especially important to our Nation's wheat farmers and exporters, would almost certainly be lost if PRC MFN status is denied or otherwise constrained by legislative action.

We in agriculture have taken great faith and comfort in past assurances that U.S. agricultural trade will be held safe from the threat of embargo or suspension; and by pledges made not to use food as a foreign policy weapon. We ask the Congress to stand by these principles in the matter of future U.S.-PRC trade. Suspension of PRC MFN status could threaten progressive elements of the PRC economy and society, and would be equally injurious to Hong Kong interests. Furthermore, such action would represent a virtual gift of markets to our trade competition at the very moment the U.S., through the GATT process, seeks to expand U.S. trade opportunities throughout the globe.

We understand that the problems posed by this issue for non-agricultural U.S. interests are easily as serious as those threatened for U.S. agriculture. For all interests potentially threatened, we urge you to support the President in his desire to unconditionally extend PRC MFN status. Such a policy is, in our view, necessary to ensure the maintenance of stable, long term trade with the PRC.

We thank you for your consideration of this matter. With warm regards in behalf of the Officers, Directors and Members of the North American Export Grain Association,

Sincerely,

Steven A. McCoy  
President

NATIONAL SECURITY COUNCIL

July 15, 1991



FOR: MIKE ANDRICOS  
JIM DYER  
STEVE FARRAR  
BILL MACKAY

FROM: DOUG PAAL

Enclosed is State's draft of the  
response to the Baucus letter which  
has been approved by Secretary Baker.  
Comments please.

---

Doug  
5746

FOR MIKE ANDRICOS AND JIM DYER:

Doug is traveling for the next two  
weeks and has left me a note to hold on  
to this response (when it's final) until  
the two of you say to move it.

Cindy  
X5746

# Withdrawal/Redaction Sheet

## (George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
05. Letter	To: Senator Baucus From: President Bush Re: China's MFN Status (8 pp.)	n.d.	(b)(1)	S

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Legislative Affairs, White House Office of  
**Series:** Dyer, James W., Files  
**Subseries:**  
**WHORM Cat.:**  
**File Location:** China MFN [4]

<b>Date Closed:</b> 9/24/2012	<b>OA/ID Number:</b> 08451-008
<b>FOIA/SYS Case #:</b> 2012-1098-F	<b>Appeal Case #:</b>
<b>Re-review Case #:</b>	<b>Appeal Disposition:</b>
<b>P-2/P-5 Review Case #:</b>	<b>Disposition Date:</b>
<b>AR Case #:</b>	<b>MR Case #:</b>
<b>AR Disposition:</b>	<b>MR Disposition:</b>
<b>AR Disposition Date:</b>	<b>MR Disposition Date:</b>

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National Security Classified Information [(a)(1) of the PRA]
- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

- (b)(1) National security classified information [(b)(1) of the FOIA]
- (b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- (b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- (b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- (b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- (b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- (b)(9) Release would disclose geological or geophysical information

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

July 15, 1991  
(Senate)

## STATEMENT OF ADMINISTRATION POLICY

(THE STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S.J.Res. 153 - Resolution of Disapproval of the President's  
Decision to Extend MFN to China  
(Granston (D) California)

S. 1367 - United States-China Act of 1991  
(Mitchell (D) Maine and 24 others)

The Administration strongly opposes S.J.Res. 153, which would deny China most-favored-nation (MFN) trade status, and S. 1367, which would place additional conditions on MFN renewal. If either of these bills is presented to the President, his senior advisors will recommend a veto.

The President extended China's MFN waiver because he determined that China met the legal requirements under the Jackson-Vanik amendment and that continuing MFN would serve broad U.S. economic and foreign policy interests and promote reform in China. Over the past year, China has continued its relatively open emigration policy. Extension of MFN substantially promotes U.S. freedom of emigration and travel objectives, and its withdrawal would place at risk the substantial gains already achieved in these areas.

Extension of MFN is also important for promoting reform in China. Foreign trade keeps China open to the outside world and supports the economic forces that are driving domestic political and social change and encouraging a loosening of state control and more personal freedom. Millions of Chinese depend on a healthy commercial relationship to justify business and social contacts with the United States. MFN withdrawal would hurt all Chinese, but would hurt most those Chinese, particularly in the market-oriented coastal provinces, who have the greatest stake in economic reform.

A fundamental pillar of our relationship with the Chinese people, MFN is essential if we are to stay engaged with China on a broad range of issues, including human rights, nonproliferation, prison labor exports, and trade. Eliminating MFN would seriously erode our ability to influence Chinese behavior on these issues. It would also hurt U.S. exporters and consumers, and undermine confidence in Hong Kong where the United States has substantial economic interests.

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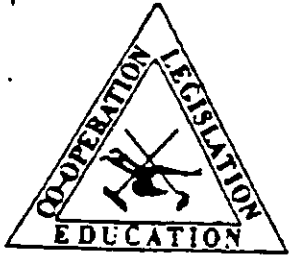
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Conditional renewal is not acceptable because it would make China less likely to respond to U.S. concerns. Hardline Chinese leaders would claim that national honor and sovereignty preclude any concessions to the United States. Imposing new conditions for renewal would, in effect, hold our single most powerful instrument for influencing China -- trade and the openness which it brings -- hostage to the reactions of the Chinese Government.

Where particular issues are unresolved and the Chinese are not forthcoming, the President has the tools necessary to pursue U.S. interests in a targeted fashion. MFN's withdrawal is the wrong tool because of its indiscriminate impact and adverse effect on all Chinese, particularly those who continue to seek reform. The Administration believes that MFN should be renewed unconditionally now on its own merits, as the most effective means for influencing China's behavior on a range of U.S. interests.

\* \* \* \* \*



# OKLAHOMA FARMERS UNION

"The Voice of Family Farmers since 1905"

JACK KELSEY, President  
TERRY DETRICK, Vice President  
RAY SCHILTZ, Secretary

July 2, 1991

The Honorable David Boren  
United States Senate  
453 Russell Office Building  
Washington, D. C. 20510

Dear Senator Boren:

Recently during a meeting of the Executive Board of Directors of the National Farmers Union, they voted to go on record strongly supporting the extension of the most-favored nation treatment to China.

I know that you are aware that China has been this nation's largest buyer of wheat the past two years. Much of that wheat has been hard red winter, the kind grown in Oklahoma. Last week China bought one million tons of wheat in a single day. This is the largest "single day" sale of wheat to any country and Oklahoma's share of that sale could amount to \$16 million or more for Oklahoma producers.

For wheat farmers, the loss of that Chinese market would mean a reduction in wheat prices of about .27 cents per bushel and 150 million bushels of lost export sales. Other commodities as well as industries with export sales and business interests in China would be hit in similar fashion.

I must agree that China has not done much to win friends and influence people, especially those in Congress who have a big role in the MFN decision-making process. We all remember the vivid television images of the military's assault on students in Beijing's Tiananmen Square which put the issue squarely in the middle of our living room.

I think I must agree with President Bush and the U.S.-China Business Council, that more contact with China, not less, is the practical way to bring about greater freedom and respect for human dignity in China.

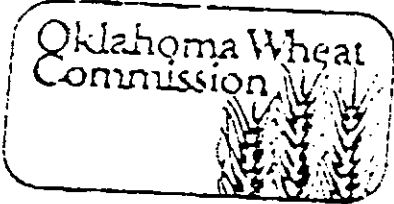
I am reminded a few years ago after working so hard to get Russia in the market to buy our wheat. That was taken away with the stroke of a pen, when President Carter put an embargo on sales to Russia. That of course was because Russia had invaded Afghanistan. The only ones that were hurt was the American farmer. They just went somewhere else and bought their wheat, and that is what China will do. We have the most to lose.

The decision you make is going to be hard, but please take all of these things into consideration.

Sincerely,

Jack Kelsey  
President

JK/sm



600 N.E. 63rd • OKLAHOMA CITY, OKLAHOMA 73103  
PHONE: 405-521-3755 • FAX: 405-543-0372

June 27, 1991

**SENT TO ALL OKLAHOMA  
CONGRESSIONAL DELEGATES**

The Honorable David L. Boren  
United States Senate  
Washington, D. C. 20510

Dear Senator Boren:

The Oklahoma Wheat Commission is deeply concerned about the future of trade relations with China. Oklahoma wheat growers have much at stake in this important market.

On June 20, 1991, China bought one million metric tons of U. S. wheat under the Export Enhancement Program. The sale set a record as the largest single transaction under the export bonus program.

China is the largest buyer of U. S. wheat and the second largest customer for Oklahoma wheat (behind the Soviet Union). In 1990, U. S. wheat sales to China accounted for \$511 million in trade and made up 17% of American wheat exports.

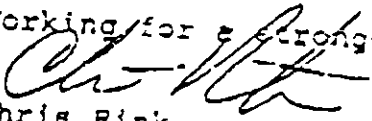
According to the Congressional Research Service, the Chinese wheat trade has a 27 cent per bushel impact on U. S. wheat growers. We desperately need this market in light of the current depressed conditions in the wheat industry.

China stopped buying U. S. wheat in 1983 after walking away from a protracted dispute with the U. S. over textile imports. That boycott of U. S. wheat lasted three years.

The Chinese could easily abandon the purchase of U. S. wheat again. Canada, Australia, Argentina and the European Community have ample supplies of wheat and could easily make it available to replace U. S. wheat.

As Congress debates the issue of China's trade status, we ask you to keep in mind the importance of this market to Oklahoma wheat producers.

Working for a stronger wheat industry,

  
Chris Rink  
Executive Director

CR:jw



## OKLAHOMA FARM BUREAU

2501 N STILES • OKLAHOMA CITY, OK 73105-3196 • (405) 523-2300

June 26, 1991

*This was  
sent to all  
Congressmen*

The Honorable Jim Inhofe  
United States House of Representatives  
408 Cannon House Office Building  
Washington, D C 20515

Dear Jim:

The farmer and rancher members of the Oklahoma Farm Bureau strongly support extension of non-discriminatory most-favored nation (MFN) tariff treatment to China.

Withdrawal of MFN tariff treatment would halt all U.S. imports from China and result in Chinese retaliation against American farm commodities. Our agricultural exports to China were valued at over \$800 million in 1990 and included livestock products, wheat and cotton.

As you can see by the commodities involved, this is an issue that is extremely critical to Oklahoma. Our state needs the nearly \$1 billion in business, mostly in wheat, with China. China is the largest purchaser of wheat from the United States. China is also the second largest purchaser of Oklahoma wheat, behind the Soviet Union.

Last week, China bought one million tons of wheat in a single day. Reportedly, this is the largest "single day" sale of wheat to any country and Oklahoma's share of that sale could amount to \$16 million or more for Oklahoma producers.

Application of prohibitive tariffs would not allow Chinese products to compete with the vast majority of other countries in the U.S. market and would virtually end all trade between the two countries. This may be the main objective for some opponents of MFN.

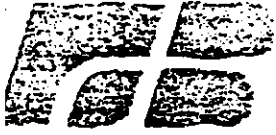
We certainly do not condone the political repression that exists in China, but withdrawing MFN is not the answer to that problem. If the United States applies discriminatory tariffs against Chinese goods, China will discriminate against the United States in its purchases of agricultural products. American farmers will once again be used as a political weapon in our government's trade policy.

We appreciate your thoughtful consideration in this matter.

Sincerely,

James L. Lockett  
President

*Where belonging makes a difference!*



## OKLAHOMA FARM BUREAU

2501 N. STILES • OKLAHOMA CITY, OK 73105-3196 • (405) 523-2300

June 26, 1991

The Honorable David Boren  
United States House of Representatives  
SR 453 Russell Senate Office Building  
Washington, D C 20510

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We appreciate your thoughtful consideration in this matter.

Sincerely,

AMES L. LOCKETT  
President

## ENID BOARD OF TRADE

OKLAHOMA GRAIN AND FEED ASSOCIATION  
OKLAHOMA FERTILIZER AND CHEMICAL ASSOCIATION  
OKLAHOMA SEED TRADE ASSOCIATION

2309 N 10th

P.O. Box 1747

ENID, OKLAHOMA 73702

PH. 405-233-1828 - 405-233-1818

FAX 405-237-2131

June 28, 1991

The Honorable David L. Boren  
453 Russell Senate Office Building  
Washington, D.C. 20510

Dear Senator Boren:

This letter is being written on behalf of the 400 plus members and the employees of the above organizations regarding the debate over China's Most-Favored-Nation status.

I am sure you realize the sense of deep economic depression that exists within the Oklahoma grain industry. Here in Enid, one-half the \$0 million storage capacity is closed and the facilities for sale. The number of firms operating in Enid has gone from seven to five, with the real possibility of four by year's end. We estimate that over the past two years, there are approximately 15% to 20% fewer Oklahoma grain firms due to mergers, consolidations, and closings. On top of this is the fact that we have just experienced a very short wheat harvest, with most country facilities receiving anywhere from 40% to 70% of their normal receipts. The Enid terminals are only 15% full.

As you no doubt know, the China MFN status is of significant economic importance to not only Oklahoma agribusiness, but to the entire state agricultural community as well. China has been a significant buyer of hard red winter wheat over the past two years. With U.S. exports at low levels and a glut of wheat world wide, this business has been most beneficial to our Oklahoma farmers and agribusiness entities. Such continued trade with China is extremely important to Oklahoma agriculture, especially during these difficult economic times.

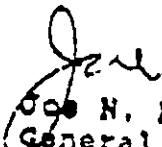
We realize there are differences on a number of issues with the Chinese. However, to believe that the United States acting alone can change their thinking as a direct result of the denial of MFN status and other economic and trading sanctions is wishful thinking at best. Denying MFN status to the Chinese will drastically harm the Oklahoma economy while at the same time do very little to change their policies.

Page 2  
Senator David L. Boren

Keeping the lines of communication open with the Chinese via MFN status is an excellent vehicle for the United States to achieve changes in their human rights, arms sales, and other internal policies. Shutting the door, both politically and economically, will hurt us much more than it will them.

Oklahoma agriculture is teetering on the economic edge of serious financial difficulties. Please do not "push us over the edge" by restricting MFN status with China.

Most sincerely,

  
Joe N. Hampton  
General Manager and Executive Vice President

JNH/gw



# NEWS

FOR ADDITIONAL INFORMATION, CONTACT

CHRIS RINK, EXECUTIVE DIRECTOR 405/521-2796

Oklahoma farmers are in a "must win" situation on the international trade front. Oddly, the battle is in Washington, D.C. where Congress is considering the President's request for an unconditional renewal of Most Favored Nation trade status for China, America's biggest wheat customer.

In 1990, U.S. wheat sales to China accounted for \$511 million in trade and made up 17% of American wheat exports. During the same period, China was the second largest customer for Oklahoma wheat (behind the Soviet Union). This year, China will likely be Oklahoma's biggest buyer.

On June 20, 1991, China made the largest single one day purchase of U.S. wheat under the Export Enhancement Program. According to Chris Rink, Executive Director of the Oklahoma Wheat Commission, Oklahoma's share of that sale could amount to \$16 million or more.

Oklahoma farmers have much at stake in trade relations with China. Concern over the future of these relations has mobilized Oklahoma farm and agribusiness groups to communicate their support for China MFN treatment.

On June 22, 1991, the National Farmers Union voted to support the approval of MFN for China at their Executive Board Meeting, according to Jack Kelsey, President of the Oklahoma Farmers Union and Vice-President of the National Farmers Union.

James L. Lockett, President of the Oklahoma Farm Bureau, in a letter to Washington said, "If the United States applies discriminatory tariffs against Chinese goods, China will discriminate against the United States in its purchases of agricultural products. American farmers will once again be used as a political weapon in our government's trade policy."

It's unfortunate that we get trade policy and foreign policy intertwined, was the sentiment expressed by David Gammill, President of the Oklahoma Wheat Growers' Association. It's a sad thing when we adopt policies offering questionable improvement, but damage done in this country by those same policies is certain.

William R. Allen, Jr., President and Chief Executive Officer of Union Equity Cooperative Exchange, offered the following in a letter to Washington, "If MFN is denied or made so conditional that it is tantamount to denial, the unfortunate truth is that those at whom our bullets are fired won't be hit; our bullets will hit ourselves and other unintended targets, both economically and diplomatically. And on the economic front, Oklahoma agriculture stands to be wounded badly."

The Enid Board of Trade and Oklahoma Grain and Feed Association's Joe Neal Hampton expressed, "Denying MFN status to the Chinese will drastically harm the Oklahoma economy while at the same time do very little to change their policy on internal affairs. They can simply go elsewhere for their wheat business."

According to Scott Dewald, Executive Director of the Oklahoma Agricultural Cooperative Council, which represents cooperatives and their owner members, "Denying Most Favored Nation status to China could lead to China's refusal to purchase American farm products and thus would have a large negative impact on Oklahoma's wheat and cotton producers and the Oklahoma economy. If this market can't be made up somewhere else then we will see higher costs for domestic farm programs and job losses (estimated at 22,500) due to a fewer number of people required to move the products. Granting MFN to China is crucial not only to Oklahoma producers but to the Nation's consumers as well."

Congress is considering a number of measures which might deny or at least restrict MFN treatment. However, Chinese authorities have made it clear that restrictions are unwanted and will invite retaliation.

Wheat farmers well remember when China stopped buying wheat in 1963 after a trade dispute involving textiles. That boycott of U.S. wheat lasted three years.

The Chinese could easily abandon the purchase of U.S. wheat again. Canada, Australia and the European Community have record supplies of wheat and could easily make it available to replace U.S. wheat. None of these countries, nor any of China's other trading partners, are currently considering revoking China's MFN status.

The MFN or Most Favored Nation trade status desired by China really only allows for normal trade relations. In fact, the only countries not currently enjoying MFN relations with the U.S. are: Afghanistan, Albania, Bulgaria, Cuba, Kampuchea, Laos, Mongolia, North Korea, Romania, the Soviet Union, and Vietnam.

A recent Congressional Research Service report estimates wheat prices would plunge 27 cents per bushel if China refuses to buy U.S. wheat. The report suggests that the long-term effect may be even worse due to the negative effect on the markets of losing America's top foreign wheat buyer.

All the Oklahoma groups which have supported China's MFN status have acknowledged concern over Chinese policy in a number of areas. But, these groups raise doubt over the influence of trade relations on Chinese internal policy.

The US-China Business Council, a trade association of firms with business interests in China, suggests withdrawal of MFN would destroy or severely weaken a significant force for reform in China. According to the Council, Chinese hardliners would have a ready-made reason to blame the U.S. for any economic hardships. "We tried to change China's behavior with sanctions in 1950 and the Soviet Union sought to bring China to its knees in 1959," the Council recalls. "China's response in each case was to tighten its belt, suppress all dissent and unite the country."

Oklahoma farmers have a great deal at stake in the debate over China's MFN status. The U.S. has been an active exporter of wheat to China since the normalization of relations in the late 1970's. Chinese imports of American wheat have increased steadily throughout the 1980's, averaging 180 million bushels per year. In 1989, China became the largest importer of U.S. wheat. It has maintained its rank as our number one customer since then and promises to remain a major customer for U.S. wheat through the end of the century, barring any disruption in current trade flows.

# W.B. JOHNSON

GRAIN COMPANY

GRAIN FEEDS, SEEDS, FERTILIZER  
411 WEST CHESTNUT  
P.O. BOX 1307  
ENID, OKLAHOMA U.S.A. 73702

MEMBER  
ENID BOARD OF TRADE  
GRAIN AND FEED DEALERS NAT. ASSN.  
OKLA. GRAIN AND FEED ASSN.  
TEGMA

OFFICE PHONE  
405/233-5800

June 26, 1991

The Honorable David Boren  
United States Senate  
Washington, DC 20510

Dear Senator Boren:

Our 1991 wheat harvest is virtually complete, and I am sure you are aware that we had a short crop with very poor quality. We always like to have rain, but the untimely rain during harvest this year did not help our grain quality any.

I noticed that there was still some debate in Congress on whether or not to support the President's effort to give China Most Favored Nation status. I would encourage you to support the President on giving them MFN, with no quirks added. Even though we have had a short crop in Texas, Oklahoma and Kansas on hard red winter wheat and the quality is poor, the price is even worse and continues to decline. I believe that without Most Favored Nation status to China, it would be like putting a grain embargo on U.S. wheat, when it is already depressed.

I would be happy to supply you with any information you may need that would be helpful in making this decision. I hope that you support President Bush in his efforts.

Sincerely,



Lew Meibergen

LM:jn

# Guthrie Corporation

P. O. Box 429  
GUTHRIE, OKLAHOMA 73044

FAX  
(405) 282-4450

PHONE  
(405) 282-4400

June 27, 1991

The Honorable Don Nickles  
U.S. Senate  
713 Hart Senate Office Bldg.  
Washington, D.C. 20510-3602


  
Honorable Don Nickles:

I am writing to urge you to support the Most Favored Nation status for China. As an exporter of agricultural products I feel it is important that we keep China as a customer to whom the U.S. can export.

It would appear to me that it would be ill advised to withhold MFN status from the Chinese for their behavior in the human rights area. First, in my opinion they would not change their ways in the human rights area because of our withholding of MFN. Secondly, we already have a growing trade deficit with the Chinese which will only grow larger if we withhold MFN.

For the above reasons I urge you to support MFN with China during the current debate in Congress.

Yours very truly,

  
John C. Pearson

1775 Lincoln St., Suite 1200  
Denver, CO 80202-1029  
FAX: (303) 866-1439  
Phone: (303) 831-7411



Colorado Association of  
Commerce and Industry

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July 1, 1991

The Hon. Hank Brown  
U.S. Senate  
717 Hart Office Building  
Washington, D.C. 20515

Dear Hank:

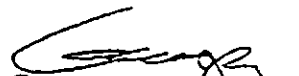
As the Senate is nearing a vote, I urge you to support extending Most Favored Nation Status to China.

I believe extending MFN status is most important to business here. Dropping the status could adversely affect Colorado's aerospace and agricultural industries as well as others. Thousands of jobs and billions of dollars in exports are at stake nationwide. Americans would pay much higher prices for items which are now produced inexpensively in China.

It is obvious that the United States wants political reform in China, and doing business with democratic countries such as the U.S. will encourage political and economic reform in China faster than will pulling out. Only our European and Japanese competitors would benefit.

I appreciate your consideration and hope you will vote to continue MFN status.

Sincerely,

  
George S. Dibble Jr.  
President and CEO

GSD/a

177 1/2 Lincoln St., Suite 1200  
Denver, CO 80203-1029  
FAX (303) 866-1439  
Phone: (303) 837-7411



Colorado Association of  
Commerce and Industry

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July 1, 1991

The Hon. Timothy Wirth  
U.S. Senate  
380 Russell Office Building  
Washington, D.C. 20515

Dear Tim:


As the Senate is nearing a vote, I urge you to support extending Most Favored Nation Status to China.

I believe extending MFN status is most important to business here. Dropping the status could adversely affect Colorado's aerospace and agricultural industries as well as others. Thousands of jobs and billions of dollars in exports are at stake nationwide. Americans would pay much higher prices for items which are now produced inexpensively in China.

It is obvious that the United States wants political reform in China, and doing business with democratic countries such as the U.S. will encourage political and economic reform in China faster than will pulling out. Only our European and Japanese competitors would benefit.

I appreciate your consideration and hope you will vote to continue MFN status.

Sincerely,

  
George S. Dibble Jr.  
President and CEO

GSD/a



**NEW MEXICO POTASH**  
C O R P O R A T I O N

July 1, 1991

The Honorable Pete V. Domenici  
United States Senate  
494 Dirksen Senate Office Bldg.  
Washington, DC 20510

Dear Senator Domenici:

This is to urge your support of extending Most Favored Nation trade status with the People's Republic of China, and to oppose Senator Mitchell's proposal to put conditions on MFN renewal.

While we know that there is a crying need for human rights reform and more demonstrable movement toward democracy in China, we feel that placing the proposed conditions on MFN would effectively terminate that status. This in turn would allow one of our large trading partners and the largest foreign market in the world to revert to the sort of policies that allowed repression to thrive. This would jeopardize US exports of fertilizers, agricultural products and implements and aircraft.

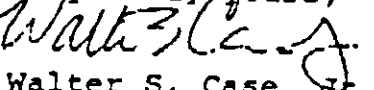
A market oriented industrial base is thriving and growing in Southern China where workers producing goods for export to the US enjoy better wages and a higher standard of living. This free enterprise movement would disappear to the detriment of the free world if MFN were removed. We also feel termination of MFN would have a downside effect on Hong Kong, one of our most reliable trade partners.

The uncertainties wrought by the proposed conditions would result in a number of US companies pulling out of China and at home we would see a significant increase in the cost of low priced consumer goods now imported from China, like footwear, clothing and toys.

Unilateral trade sanctions are an ineffective weapon, generally hurting only the sanctioning nation.

For these reasons we urge you to back unconditioned MFN status for China.

Very truly yours,

  
Walter S. Case, Jr.  
General Manager

WSC/bt

THE WHITE HOUSE

WASHINGTON

July 11, 1991

MEMORANDUM FOR JAMES DYER

FROM: STEPHEN P. FARRAR *SFF*  
WARREN MARUYAMA *WM*

SUBJECT: China MFN

Cal Cohen of the Emergency Coalition for American Trade (ECAT), a key business lobbying organization, called yesterday to report on a meeting with Senator Hank Brown. According to Cohen, Brown's primary complaint was that the Administration is not doing enough on market access. Brown said that the lack of action on trade is the principal reason he may vote with Senator Mitchell.

In our judgment, the USTR portions of the draft Baucus letter should fully address any concerns about market access and trade, as long as the Special 301, self-initiated 301, and Taiwan GATT initiatives stay in the package.

Accordingly, if this has not occurred already, it might be useful for you to meet with Brown, listen to his market access concerns, and promise to see whether they can be addressed. If so, Brown would feel that the Administration has been responsive and could take credit for whatever is in the package.

cc. Doug Paal



NATIONAL SECURITY COUNCIL

July 15, 1991

FOR: MIKE ANDRICOS  
JIM DYER  
STEVE FARRAR  
JOSH BOLTEN  
BILL MACKAY

FROM: DOUG PAAL

Background papers from State arrived after Doug's bootleg copy of the letter, and are attached for your review. Sorry this came in two separate packages.

Cindy  
X5746

1. all

2. Baucus / briefing

**Background Attachments:**

**Part I - Trade and Economic Issues**

**Part II - Nonproliferation**

**Part III - Human Rights**

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(Final version to be provided to NSC)

**PART I: TRADE AND ECONOMIC ISSUES**

The Administration is committed to achieving with China the same goals that have guided our trade policy with all other countries. We seek open markets and the opportunity for U.S. firms and their products to compete on fair and equal terms. To achieve these goals, and realize the principles of equality, mutual benefit and non-discrimination set forth in the U.S.-China Bilateral Trade Agreement, this Administration has pursued a policy of negotiation and engagement on trade issues with China. In particular, the Administration has sought to improve U.S. access to China's marketplace; to bolster Chinese protection of intellectual property; to end fraudulent practices by Chinese textile exporters using false country of origin declarations; and, to induce Beijing to undertake the economic and trade reforms required for membership in the GATT.

Reciprocal MFN tariff treatment underpins our ability to work constructively with the PRC. China's desire to retain access to the U.S. market has enabled us to engage Chinese leaders in periods of tension. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests and erode our ability to influence China's behavior on key trade issues.

**A. The Past Decade of Bilateral Trade Relations**

After decades of adhering to an import-substitution strategy that focused on minimizing China's reliance on outside sources of machinery and equipment, in the 1980's China has sought outside sources of these goods. It also has increasingly drawn on foreign technology, expertise, and funds by actively encouraging joint ventures.

China's opening to the outside world has helped transform its economy, bolstering reform-oriented sectors that are not directly controlled by the central government. For example, the state sector now produces just over half of China's industrial output; in 1978, its share was 78 percent. China's dynamic rural industries, which are privately and collectively owned, have burgeoned. The 30,000 foreign-invested ventures China now has are valued at \$40 billion. The impact of China's open door has been particularly pronounced in coastal areas, where 90 percent of the foreign investment and more than three-fourths of China's trade activities are located. This region, in turn, has become the primary engine of economic reform in China largely as a result of the introduction of market concepts to Chinese employees of joint ventures and to citizens engaging in commercial exchanges with the West. The economic autonomy fostered by this interaction contributes to increased political and even individual self-determination.

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By SS NARA, Date 6/20/25

The United States has been a vital partner in this transformation. Following Congressional approval of the bilateral trade agreement, the United States and China established formal trade relations and reciprocally granted most-favored-nation (MFN) status in 1980. Growth in our commercial ties has helped to change China and to bring it into the global trading system. Since the resumption of normal trade relations, U.S.-China two-way trade has increased almost 770 percent, from \$2.3 billion in 1979 to over \$20 billion last year.

- We are now China's second-largest trade and investment partner and its largest export market.
- China is our tenth-largest trade partner, up from fifteenth in 1981.
- Over 1,000 U.S. firms have invested more than \$4 billion in China and another \$5 billion in Hong Kong related primarily to trade with the PRC.
- In 1990, the United States exported \$4.8 billion worth of goods to China, including:
  - \$749 million worth of aircraft
  - \$544 million worth of fertilizer
  - \$512 million worth of grain
  - \$281 million worth of cotton yarn and fabric
  - \$264 million worth of electric machinery
  - \$238 million worth of wood and wood pulp
  - \$238 million worth of chemicals
  - \$227 million worth of scientific instruments.

Commercial relations with the United States have exerted positive influences on China's business and economic practices since 1980. China has shifted away from total reliance on a strongly centralized economy; shown greater tolerance for experimentation with market mechanisms to regulate its domestic economy; and decentralized and liberalized its foreign trade practices.

#### B. Regression in China's Trade Policies

China's opening to the outside world has not been smooth. Over the past decade, attempts to accelerate the implementation of market-oriented reforms have been followed by Beijing's recentralization of control, as concern about the country's ballooning trade deficit led Beijing to step in to regain some of the trade authority it had relinquished.

Moreover, throughout the period since the normalization of trade relations and the granting of reciprocal most-favored-nation trading status in 1980, China's web of barriers to imports has made it difficult for many U.S. exporters to gain access to the Chinese market. U.S. firms have also had difficulty securing protection for their intellectual property.

U.S. trade negotiators have long been engaged with the Chinese Government, both in bilateral negotiations and in multilateral consultations at the GATT held to review China's application for membership. We have sought to ensure that bilateral commercial relations develop in accord with the principles that underlie our bilateral trade agreement: equality, mutual benefit, and nondiscrimination. From 1979 through 1987, Chinese authorities made some progress in dismantling nontariff barriers to imports, in improving transparency, and in protecting the intellectual property of foreigners.

This trend has been reversed over the last three years.

- Since 1988, Chinese trade policies and practices have become more protectionist, nontariff barriers to imports have proliferated, and the trade system has become less transparent. These policies undoubtedly contributed to a 17 percent decline in U.S. sales to China in 1990. China was the only major foreign market for U.S. goods and services in which our exports declined in 1990.
- Despite intensive bilateral negotiations with Chinese authorities since the USTR in 1989 placed China on the "priority watch list" of countries providing inadequate IPR protection--including three rounds of meetings over the past five months--China has failed to live up to the commitments contained in the bilateral Memorandum of Understanding (MOU) signed in May 1989.

At the same time, other problems have developed in our bilateral trade relationship. For example, to bypass U.S. textile and apparel quotas Chinese exporters have increasingly resorted to shipping these products to the United States via third countries using false invoices and counterfeit visas. Also of concern to us has been the apparent lapse in China's commitment to economic and trade reforms that would bring the country in line with the GATT's free-trade principles. China's reassertion of central control over the past few years has called into question its willingness and ability to undertake the obligations that would be required of China as a contracting party to the GATT.

C. Steps the U.S. Government Has Taken and Will Take to Address Bilateral Trade Problems

In four key areas of our bilateral trade relations, the Administration has taken steps to resolve trade problems. We are prepared to do more.

On Market Access

- Beginning in the fall of 1990, the Administration resumed sub-cabinet level meetings with the Chinese, that had been suspended since June 1989, to secure Chinese actions to reverse the growing list of new protectionist measures.

- In May 1991, the Administration formally set in motion a market access initiative that commenced with the visit to Beijing, in mid-June, of an interagency delegation to discuss market access issues. In meetings with senior Chinese officials, U.S. Government officials raised nine types of market access barriers, including: the lack of transparency in rules and regulations; the expansion of import licensing requirements; the use of import substitution policies; the proliferation of import bans and quotas; the growth of standards, testing, and certification requirements, including discriminatory "quality standards" procedures for imports; the high level of many import tariffs; the unnecessary use of certain phytosanitary regulations; the uncertainties regarding government procurement and tendering regulations; and the lack of information regarding China's major development projects.
- The Administration has proposed holding another round of market access consultations in August 1991. If that round of negotiations fails to yield substantial commitments from the Chinese authorities to dismantle market access barriers, the Administration will self-initiate Section 301 action to address those barriers the removal of which offers the most potential for achieving U.S. trade policy objectives and increasing U.S. exports.

On Intellectual Property Protection

- On April 26, 1991, USTR identified the PRC as a priority foreign country that denies adequate and effective protection of intellectual property rights.
- Accordingly, on May 26, 1991 USTR initiated a Special Section 301 investigation on the basis of four problem areas: (1) inadequate copyright protection, (2) inadequate patent protection, (3) inadequate trade secret protection and (4) ineffective enforcement of trademarks.
- Consultations with the Chinese are ongoing. The first round of consultations occurred in mid-June and a second has been proposed for August.
- The deadline for making a determination under Section 301 is November 26, 1991. This may be extended for three months if China is making substantial progress in drafting or implementing measures that will provide adequate and effective protection of U.S. intellectual property rights.
- At that time, the USTR must determine whether the acts, policies and practices of the PRC are actionable under Section 301 and what retaliatory action, if any, is appropriate.

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- If the consultations fail to produce adequate and effective protection of intellectual property rights, the Administration will take retaliatory action.

### On Textile Transhipments

- The U.S. Customs Service has been vigilant in documenting cases of Chinese textile transhipments over the past year.
- In August 1990, USTR held consultations with Chinese authorities on the transhipment issue. Additional consultations took place in November 1990, March 1991, and May 1991.
- The U.S. Government "charged" China's quotas for goods that were sent to the United States under false country of origin declarations valued at over \$85 million.
- China has begun to take actions to curtail textile fraud since the December charges were made. For example, it issued regulations prohibiting reexports through a third country to countries that have signed textile agreements with China. Further, the Chinese Government has issued provisions for the punishment of those who violate the regulations.
- The Administration has prepared more charges valued at about \$14 million that we anticipate will be levied after consultations with China next month.
- The Administration will increase the number of U.S. Customs officials dedicated to investigating circumvention.
- If transhipment persists, we will be prepared to take further action against China, beyond charging China's textile quota the documented amount imported through transhipment.

### On Forced Labor

The importation of goods produced with forced, convict or indentured labor is prohibited by 19 USC Section 1307, which also directs the Secretary of the Treasury to prescribe regulations for enforcement of the provision. The Secretary of the Treasury, under 19 CFR Section 12.42, has delegated to the Commissioner of Customs, authority to determine that a class of goods is the product of forced labor and exclude those goods.

Customs has been investigating imports alleged to be the product of forced labor in China. Customs has interviewed emigres about forced labor practices in China. Customs is also analyzing import samples to determine if they match the descriptions provided by the emigres and others. Additional special agents have been detailed to Hong Kong to assist in the investigation.

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Although the letter from Senator Baucus and fourteen co-signers did not specifically address the issue of prison labor imports, appropriate action is called for to fulfill the intent of existing law. The Administration therefore proposes to negotiate a memorandum of understanding with China on procedures for the prompt investigation of allegations that specific products exports to the U.S. are being produced by prison labor.

Pending negotiation of the MOU, Customs will temporarily embargo specific products from China when there is reasonable indication that they are made by prison labor. Embargoes will be lifted only after the Chinese Government or the Chinese exporter provides credible evidence that the products are not produced by prison labor.

### Multilateral Lending to China

The G-7 consensus, led by the United States, was successful in prohibiting all MDB lending to China from June 1989 to February 1990 in response to the international outcry against the crackdown by the Chinese authorities at Tiananmen Square.

From February 1990 to July 1990, the G-7 consensus supported a gradual resumption of World Bank lending to China for projects that clearly met basic human needs (BHN). The consensus held firm and actively prohibited other loans from Board consideration. Only five loans (totalling \$590 million) were approved in WBFY 1990. This is substantially less than pre-Tiananmen Square levels of World Bank commitments to China, which were \$1.4 billion in WBFY 1988 and \$1.3 billion in WBFY 1989.

At the Houston Summit in July 1990, several G-7 countries decided that China's long-term development needs argued for lending outside the BHN limits favored by the U.S. Accordingly, the G-7 Houston Summit Declaration of July 1990 on MDB lending to China expanded the boundaries of permitted MDB lending to China to include loans which were environmentally beneficial or which supported market-oriented economic reform. Only BHN loans were considered by the World Bank Board until December 4, 1990 when the market oriented economic reform loan for Rural Industrial Technology was approved by the Board. On November 29, 1990, the ADB approved its first loan to China since Tiananmen Square, Agricultural Bank Project, which the U.S. did not support.

Since March 1991, infrastructure projects outside the Houston summit guidelines (highways, power plants, bridges, and railways) have been approved for China by the World Bank and the Asian Development Bank. The U.S. has and will continue to withhold support on all non-BHN loans at the Board. In WBFY 1991 (which ended June 30, 1991), World Bank lending to China totalled \$1.6 billion.

### On GATT Accession

-- Since China applied for GATT membership in July 1986, the United States has been a leading participant in the

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collective efforts of major GATT Contracting Parties to develop terms for China's GATT participation that will support the objectives of the GATT and will influence Chinese Government policies to become, over time, more compatible with the GATT framework for world trade.

- U.S. and other major GATT contracting parties' concerns about China's ability and willingness to live up to GATT obligations, particularly since June 1989, have stalled progress in the Working Party established to consider China's application for membership in the GATT.
- The Administration intends to continue to press Beijing to undertake trade and economic reforms so that its GATT application can advance and its trade practices be brought under GATT disciplines.
- At the same time, the Administration will work actively with other GATT members to resolve in a favorable manner issues relating to Taiwan's GATT accession ~~and support the formation of a Working Party for the commencement of accession deliberations.~~ U.S. support for Taiwan's accession as a customs territory would be consistent both with GATT legal criteria and the "one-China" policy which acknowledges the Chinese position and has been adhered to by successive U.S. Administrations.
- Taiwan's GATT accession would yield substantial trade and commercial benefits to the United States and to the international trading system.
  - Taiwan has indicated that it is prepared to accede to the GATT as a developed economy, to bind virtually all its tariffs, and to join the major non-tariff measure GATT codes.

D. The Importance of MFN

As highlighted above, the Administration is aggressively seeking to resolve outstanding bilateral trade issues with the PRC. MFN underpins our ability to work constructively with the PRC. We believe that discontinuing MFN, or attaching conditions to its renewal, would cause serious harm to our trade interests, and would render futile pursuit of the initiatives outlined above.

It would reduce our leverage in market-access, intellectual property rights protection, and other trade-related negotiations. China's desire to retain access to the U.S. market has enabled us to engage Chinese leaders in consultations on bilateral and multilateral issues even during periods of tension. Because China is not a GATT member and not bound by GATT trade disciplines, it is especially important to have many levers that enable us to engage the Chinese on trade issues.

It would hurt U.S. exporters. If the United States rescinds China's MFN trading status, China will not only discontinue MFN

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tariff treatment for the United States, but would likely cease purchasing billions of dollars of U.S. wheat, aircraft, fertilizer, cotton yarn and fabric, wood and wood pulp, electric machinery, scientific equipment, and chemicals. Foreign competitors, whose goods would be subject to lower tariffs, would be quick to exploit our departure. Lost shares of China's market would not easily be regained even if MFN were restored at some future date.

It would hurt U.S. consumers. Tariffs on the 25 most important U.S. imports from China would rise from the present average tariff rate of 8.8 percent to an average rate of 50.5 percent. These increases would mean sharply higher prices for lower-end Chinese goods. The costs to U.S. consumers would be largely borne by poorer Americans, who are primary consumers of low-cost Chinese products.

It would damage America's reputation as a reliable trade partner. Our trade competitors will not join us in denying MFN status to China. Other Chinese trade partners, especially in Asia, urge that China's MFN status be retained.

It would hurt investors, businesses, and workers in Hong Kong. Loss of MFN would impede China's integration into the regional economy, a development crucial to regional stability particularly as we near the 1997 deadline for Hong Kong's reversion to Chinese sovereignty. It could cost over 43,000 jobs in Hong Kong and result in direct revenue losses of approximately \$1.2 billion dollars. Hong Kong's GDP growth could be curtailed by as much as two percentage points.

It would set back efforts to bring about meaningful economic reform in China. A disproportionate burden of the MFN denial would fall on the primary engine of economic reform in China--the economies of the southern and coastal provinces. In Guangdong province, for example, 40 percent of industrial output is produced for export, half of which goes to the United States. Sectors that fall outside of the direct control of the central government have been especially important to China's development as an exporter; one-third of China's exports currently come from rural (individual and collectively owned) industries and from foreign-invested ventures. The foreign ties these provinces and non-state-owned factories developed with the outside world prior to Beijing's reassertion of central control in mid-1989 enabled these provinces to weather the austerity program; without these foreign markets, Beijing's grip would have been all the tighter. As Beijing's influence over the regions and sectors most closely integrated into the global economy has diminished, these regions and sectors have become increasingly sensitive to global economic conditions. Revocation of China's MFN trading status would cause unemployment to rise and factory losses to mount in export-producing regions.

E. Conclusion

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# DRAFT

Those who engineered the violence in China in June 1989 are unlikely to bear the economic costs associated with the denial of MFN. Instead, those who suffer would be American businesses and their employees, American consumers, and the people of Hong Kong and the progressive areas of China.

China's opening to the outside world over the past decade has accelerated growth in the non-state sectors of the economy; resulted in strong links between China's coastal regions and the global economy that have enabled this reformist region to weather Beijing's periodic efforts to reimpose central government control over economic activity; and introduced market concepts to a generation of Chinese managers involved in joint ventures, trade negotiations, and training in the West. For this process to continue, China's most-favored-nation treatment in the United States is essential.

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PART II:  
ADMINISTRATION'S ACTIONS WITH RESPECT TO PROLIFERATION CONCERNS

We are engaged in a high-level dialogue with the Chinese that began early in our relationship. Looking at the broad trends in China's nonproliferation policy since normalization in 1979, it is clear that our dialogue has paid off in important areas, demonstrated by China's evolution toward international consensus on nonproliferation in areas of great importance to us. For example, China, which once held an antagonistic view of multilateral controls on nuclear exports, joined the IAEA in 1984 and sent observers to the Nuclear Nonproliferation Treaty Review Conference in 1990.

China's support for the Middle East arms control initiative is another case in point. China's participation in the initiative is a positive step that will strengthen international nonproliferation efforts and indicates China's resolve to contribute to efforts to attain stability in the Middle East. In addition, China's willingness to participate in multilateral efforts to reduce tension in South Asia will be crucial to establishing stability in that volatile region.

Moreover, we have seen Chinese arms sales restraint in some areas of where we have vital interests. For example, to the best of our knowledge, apart from the 1987/88 sale of missiles to Saudi Arabia, China has not delivered medium-range missiles to the Middle East. It is clear that in other specific cases China has taken international concerns into account and declined proposed missile exports to prospective buyers.

It is because serious concerns remain that we want to maintain a constructive nonproliferation dialogue with Beijing. We do not intend to ignore current problems, but isolating China by dismantling the framework for our relations is not the way to advance our nonproliferation objectives.

We have the means available to underscore our concerns where there are differences in our approaches to nonproliferation and we have used these legislative and executive branch tools. For example, we have imposed trade sanctions mandated by the National Defense Authorization Act on Chinese entities involved in missile-related activities. We have also announced the Administration's decision that, pending progress toward our nonproliferation objectives, we will not license high speed computers and will not issue further waivers of legislative restrictions on satellite exports. These new sanctions have been imposed in addition to the existing sanctions announced immediately following the June 1989 assault on Tiananmen and amplified by Congress in the State Authorization Bill for FY90-91. Moreover, we have not certified China under the bilateral agreement for nuclear cooperation that took effect in 1985.

Our policy mix of sanctions and cooperation at any given time is necessarily dependent on Chinese behavior. We are encouraged by China's indication in June that it is reviewing its policies with respect to the Missile Technology Control Regime and the NPT. We seek China's adherence to the NPT and the MTCR guidelines and will do all we can to promote concrete steps toward Chinese adherence to the key multilateral standards for international behavior established by these institutions. The Administration will continue to use the legislative authority that already exists and will take resolute action if the Chinese do not address favorably our nonproliferation concerns.

### PART III: HUMAN RIGHTS

Human rights concerns have been at the heart of our relationship with the PRC since the tragic events of June 1989. Every high-level meeting since that time has at least touched on human rights issues, and several -- such as the December 1990 visit to China by Assistant Secretary Schifter -- have been devoted exclusively to them. We have consistently stressed to the Chinese leadership that there can be no return to the kind of relationship we enjoyed before 1989 without substantial improvements in China's human rights practices.

Our overall approach on human rights issues has consisted of:

o Public expressions of concern.

-- President Bush condemned the brutal suppression of demonstrations in Tiananmen Square in June 1989, the first world leader to do so. He declared May 13, 1990 a National Day in Support of Freedom and Human Rights in commemoration of the 1989 demonstrations, and issued another statement to mark the anniversary of the crackdown in 1991.

-- In our human rights reports for 1989 and 1990, we strove to be fair but hard-hitting, and as accurate as available information would allow. These reports have drawn high praise from human rights groups, and harsh condemnations from the Chinese government.

-- The State Department issued a statement on January 9, 1991 condemning the trials of nonviolent dissidents.

-- In April 1991 the President met the Dalai Lama at the White House to demonstrate our respect for His Holiness' nonviolent approach to conflict resolution and our concern for human rights problems in Tibet.

o Suspension of bilateral programs. On June 6 and June 20, 1989, the President announced the suspension of a number of bilateral programs and changes in U.S. approach to multilateral issues until the human rights climate in China improved. Those suspensions generally remain in effect.

-- A multitude of high-level exchange visits that would normally have taken place since 1989 have been canceled. Only a very limited number of visits at and above Assistant Secretary level have been approved on a case-by-case basis, and only when they addressed issues of key concern to the U.S. like human rights, nonproliferation, unfair trade practices and narcotics.

- Military exchange visits have been suspended completely.
- Work on several existing military equipment and technology projects has been suspended indefinitely.
- We have stopped the transfer of military or dual-use equipment or technology to Chinese military and security services.
- The U.S. sought to postpone all multilateral development bank loans to China from June 1989 to January 1990. Since then, we have supported only those loans that serve the basic human needs of the Chinese people.
- We have suspended grants, loans and insurance guarantees to China under the Trade and Development Program and OPIC.
- We have worked through COCOM to suspend planned liberalization of export controls to China.
- o Engagement in dialogue. Through the few high-level visits that have been authorized, and through regular diplomatic channels, we have engaged the Chinese government in an unprecedented continuing dialogue on a wide range of human rights issues.
  - The Scowcroft-Eagleburger missions of July and December 1989 were devoted primarily to laying out our human rights concerns and suggesting steps the Chinese could take to address them.
  - During Chinese Foreign Minister Qian's visit to Washington in November 1990, President Bush and Secretary Baker reiterated the need for progress on human rights, and stressed that human rights is a cornerstone of American foreign policy.
  - Assistant Secretary Schifter visited China in December 1990, the first time our top human rights official has done so. In 16 hours of intense discussions with senior Chinese officials, he spelled out in detail our human rights concerns in a wide range of areas including accounting of detainees, release of political prisoners, denial of due process and fair and open trials, treatment of prisoners, divergence of Chinese law from international standards, respect for freedom of religion, abusive implementation of family planning regulations, and human rights problems in Tibet. He delivered a list of 151 representative cases of reported political incarceration, and asked Chinese authorities to clarify the status of the cases

and release those whose imprisonment violated international norms. He suggested changes in Chinese laws and judicial processes that would bring them into conformity with international standards.

- Under Secretary Kimmitt in May 1991 reiterated many of the points made by Assistant Secretary Schifter, and called on the Chinese government to declare an amnesty for all those imprisoned for nonviolent political activities. He also urged the Chinese to implement effectively their claimed prohibition on export of prison labor products.

These actions have produced results. Most importantly, the Chinese government has acknowledged the legitimacy of human rights as a subject of bilateral discussion, both with us and with other concerned governments. They received a Congressional delegation devoted exclusively to human rights concerns in March 1991, and agreed to receive another later this year. They also agreed to receive human rights delegations to be sent by the governments of France and Australia. In addition, they have taken a number of modest but positive steps to improve the human rights situation in China:

- o Martial law was lifted in Beijing in January 1990 and in Lhasa four months later. No part of China is currently subject to martial law.
- o Most of those detained after the Tiananmen tragedy were released by the end of 1989. Chinese authorities announced the release of nearly 1000 more detainees in 1990, and about 70 have been released so far in 1991. Officials claim that only 21 still await trial detention in Beijing, and at least one of these -- labor leader Han Dongfang -- has been released for medical treatment.
- o While at least 30 persons have been convicted on political charges since the beginning of the year, the sentences meted out to them were generally less severe than those imposed on similar charges in previous years. Those released without further punishment included prominent dissidents such as essayist Liu Xiaobo, journalist Zhang Weiguo, playwright Wang Peigong, and legal scholar Chen Xiaoping.
- o Leading dissident Fang Lizhi and his wife, who had obtained refuge in the U.S. Embassy in Beijing for over a year, were allowed to leave China in June 1990, and are now at Princeton.
- o Most investigations of those involved in the 1989 protests have ended, and most of our Chinese contacts report that the oppressive atmosphere of 1989 has lifted significantly.

- o The Chinese have ceased the most odious forms of harassment of Chinese students and scholars in the U.S.; harassment was a serious problem in 1989 and early 1990.
- o Relatives of many, though not all, overseas dissidents have been allowed to leave China and join them abroad. In some of the remaining cases that we have raised with Chinese officials, passports have subsequently been issued.
- o Several released dissidents, including Tiananmen hunger striker Gao Xin and former Arizona State student Yang Wei, have been allowed to leave the country.
- o Chinese authorities have undertaken to stop the export to the U.S. of products made in Chinese prisons. We will continue to monitor this situation closely, but it appears that the Chinese government is taking increasingly specific steps to enforce their prohibition on export of these products.
- o In response to concerns expressed by Administration officials and Members of Congress, the Chinese have provided useful new information on the status of persons reported detained for religious activities.
- o Economic reforms have resumed, in some cases matching or exceeding levels reached before 1989. Some limited political reforms, in important but relatively noncontroversial areas such as the personnel system, have continued. An Administrative Procedure Law that became effective in October 1990 for the first time enables Chinese citizens to sue abusive officials.

There are indications that further progress may be in the offing. We are continuing to press the Chinese government to release all remaining detainees, to commute the sentences of those nonviolent dissidents already convicted, and to allow the departure of the remaining relatives of overseas dissidents who wish to leave. We are hopeful that a combination of dialogue and specifically targeted pressure will lead to further movement on these and other remaining issues of concern. And in the longer term, we are confident that the momentum toward greater freedom and democratization in China, built up during the decade of reforms and dramatically reflected in the 1989 demonstrations, will prove irreversible.

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# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-8200

VANDA B. MCKURTNEY, STAFF DIRECTOR AND CHIEF COUNSEL  
EDMUND J. MIHALSKI, MINORITY CHIEF OF STAFF

June 19, 1991

Dear Mr. President:

Congress will decide in the next few weeks whether to accept your recommendation and extend most favored nation trade status to China. We are writing to share our concerns.

In the debate over the appropriate U.S. policy towards China, one thing is clear: China's behavior must change. The United States has serious human rights and foreign policy concerns with China. Every American remembers the vivid images of the Tiananmen massacre. In the two years since Tiananmen Square, evidence of democratic reform has been scant at best. We also have learned of Chinese sales of advanced missiles to Syria and Pakistan, and of nuclear technology sales to Algeria. There are credible reports that China has forced political prisoners to produce goods for export to the U.S.

The United States also has serious economic concerns with China. The U.S. Trade Representative's annual report on foreign trade barriers lists ten pages of Chinese barriers. China maintains restrictions including a preclusive licensing system, discriminatory testing and certification standards, and outright import bans. China also fails to protect U.S. intellectual property, resulting in enormous losses to U.S. producers of films, books, chemicals and pharmaceuticals. Moreover, the Administration has allowed China to dictate U.S. policy towards Taiwan, declining to support Taiwan's GATT application despite clear economic benefits to the U.S.

The United States cannot continue to tolerate Chinese intransigence. We must tailor active responses to our wide ranging concerns. But MFN is the wrong tool for the job. Revoking MFN would not promote human rights in China. Instead, it would punish China's most progressive regions and Hong Kong.

Revoking MFN also would hurt Americans. China is an important market for U.S. goods ranging from wheat to airplanes. If MFN were revoked, China almost certainly would retaliate against U.S. exports. The Australians, Canadians, Europeans and Japanese are ready to fill the void. No other country is contemplating cutting off China's MFN status.

We believe the Administration must be more active in addressing American concerns with China. You have taken meaningful steps in some areas. You have moved to protect U.S. intellectual property under provisions of the 1988 Trade Act. You also have taken steps to restrict certain technology transfers to China in response to its missile and nuclear sales. These steps are examples of the types of actions the U.S. should take.

