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Series/Staff Member: Alexis Herman
Subseries:

OA/ID Number: 2906
FolderID:

Folder Title:
MFN [Most Favored Nation]

Stack:	Row:	Section:	Shelf:	Position:
S	29	4	8	2

FACT SHEET

China MFN Decision

I. POLICY DECISIONS

The President today announced the following decisions regarding our policy toward China and Most-Favored-Nation status:

- 1.. Renew Most-Favored-Nation status for China.
2. Delink MFN renewal from human rights issues, other than the statutory requirement of Jackson-Vanik.
3. Impose a ban on the import of Chinese munitions, consisting chiefly of arms and ammunition, projected to total approximately \$200 million in 1994.
4. Maintain the existing Tiananmen sanctions (the denial of participation in the U.S. Trade and Development Assistance Program, OPIC and the U.S.-Asia Environment Partnership Program; continued U.S. opposition to non-basic human needs loans to China by the World Bank and other MDBs; suspension of weapons deliveries; and denial of licenses for dual-use civilian technology and U.S. munition list items).
5. Implement a vigorous, multi-faceted human rights policy to achieve continued progress.

II. THE NEW HUMAN RIGHTS STRATEGY

The new strategy builds upon existing components of U.S. policy, including continuation of Tiananmen economic sanctions and our bilateral human rights dialogue with the Chinese government. The following additional steps will also be taken:

1. Statement of Business Principles. Leaders of the American business community, whose activities in China already contribute to both an economic and political liberalization, will be asked to work with the Administration to develop a voluntary set of principles regarding the activities of American business firms to advance human rights in China.

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The new strategy builds upon existing components of U.S. policy, including continuation of Tiananmen economic sanctions and our bilateral human rights dialogue with the Chinese government. The following additional steps will also be taken:

1. Statement of Business Principles. Leaders of the American business community, whose activities in China already contribute to both an economic and political liberalization, will be asked to work with the Administration to develop a voluntary set of principles regarding the activities of American business firms to advance human rights in China.

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Fax 202 879 9286/87

Robert L. Healy
Manager
Federal Government Relations

June 7, 1994

TO: Alexis Herman
Assistant to the President and Director of Public Liaison
2nd Floor, West Wing
The White House

Ed Knight
Executive Secretary and Senior Adviser to The Secretary
Department of the Treasury (Rm.3408)

FROM: Robert L. Healy

RE: Cook Op.ed/MFN

Attached is an op.ed on China MFN by Mr. Cook. Please utilize as discussed.

We will work our sources, primarily on the West Coast.

CHINA: THE NECESSARY RISK

By Lodwick M. Cook
Chairman and CEO
ARCO

It's not hard for a businessman to sympathize with the dilemma President Clinton faced in trying to decide China's most-favored-nation trading status with the United States. If he withdrew MFN, those rightly concerned with human rights would rejoice; if he continued MFN, others would be relieved that the progress of the country's economic miracle would not be seriously disrupted.

Both sides of the argument confronting the President had undoubted merit, and yet they were clearly unbalanced in terms of the risk they presented to the White House. In political terms, the greater hazard by far was for Mr. Clinton to refuse to base his choice solely on America's commitment to human rights. I think the decision he ultimately took showed great political courage and a remarkably mature grasp of the best route to the future for the United States and China. I see it as the correct evolution of the bilateral policy relationship.

The cynical will view this as an amoral "business" take on international relations, the same indifference to human rights that prompted some American firms to continue their activities with German firms in the shadow of World War II. But unlike the Third Reich, China is not our enemy. It is a vast, emerging country whose continued rapid development into a cooperating, contributing member of the global community is of crucial importance to all of us. China is simply too important to try to push around -- even if we could be assured that our withdrawal would further the cause of human rights there. Any such outcome is highly unlikely.

China is also too big to force into anything. In *Beyond Peace*, completed just before he died, President Nixon wrote, "Today, China's economic power makes U.S. lectures about morality and human rights imprudent. Within a decade, it will make them irrelevant. Within two decades, it will make them laughable. By then, the Chinese may threaten to withhold most-favored-nation status from the United States unless we do more to improve living conditions in Detroit, Harlem and south central Los Angeles."

The point is an important one: What *will* be the relationship between China and ourselves in, say, two decades? And what kind of country will China have become as a result of U.S. influence exercised over the years? If we try to force our will on China, I think the answer is evident. We will fail. Worse, we may achieve a number of negative results.

The better possibility is the vision that I believe President Clinton saw when he chose to continue China's MFN status and, in effect, divorce trade from the human rights issue. He foresaw a relationship built on a mutual acceptance of the simple fact that we are different countries — with differences in history, values and interests far too great to be overcome in this President's term of office — or perhaps ever.

The President put the correct question: What approach to China will best accomplish the human rights goals that all of us seek?

With trade with our country continuing unhindered, I believe he sees a China that will gradually improve in the ways that Americans want — a place where people are given opportunities to secure a better way of life through the use of their own skills and initiative; a country steadily emerging from millenia of poverty and denial through its own efforts, influenced by the example of America and other free market economies.

I believe in this view of the Chinese future because I have seen it — and it truly works.

ARCO has engaged in business activities in China for nearly 15 years. The venture has been risky and slow to develop, but we wouldn't be in China today if we didn't believe we have a profitable future there. But apart from our company's direct interests, it is also indisputably true that

what we're doing is of direct and immediate benefit to the people of China. It doesn't happen because we persuade the government to change its policies. In many ways, the government has nothing to do with it. The benefits come to the people of China because of the commercial development itself.

We offer training opportunities to our Chinese employees covering such things as the English language, technical skills, management, environmental protection, employee safety and health, and business ethics. These skills benefit the Chinese people we contact well beyond their contribution to ARCO. This is an important side benefit of international investments, and one that doesn't show up in trade statistical data.

The future of China, in my belief, will be built this way — small, incremental steps taken by risk-takers of this country and others who see opportunity in this great, underdeveloped country, this colossus of the future. It is contact between people that counts, the people-to-people enrichment that comes when a person who knows how to do something constructive shares his knowledge with someone who doesn't.

That is what is happening in China today, and frequently the teachers are representatives of companies like ARCO. The relationships they are building are immensely fruitful and promising. And thanks to President Clinton's vision and courage, they will continue and grow. Through this growth, the people of the United States and China will improve the conditions of both our countries. And that is the ultimate truth: America can't dictate to China but we can work with her — and that's what we're going to do.

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Amey

Chevron Corporation

225 Bush Street, San Francisco, CA 94104-4289

ASMT

K.T. Derr
Chairman of the Board

June 6, 1994

The Honorable William J. Clinton
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing to you to express our appreciation for your leadership and wisdom in renewing Most Favored Nation status for China. As a company that returned to China more than 15 years ago, shortly after President Carter began diplomatic relations with that country, Chevron understands the value of establishing long term relationships there.

Our country's strategic, economic, and political interests are best enhanced by maintaining these important ties, as is American industry's ability to make long-term business plans. You took a critical step by de-linking the human rights question from the MFN process. The divisiveness of the annual MFN debate since 1989 has profoundly impacted our capability to sustain relations with our Chinese customers and partners, hindering both present and future business planning.

As an American company, we bring and represent American values, including respect for human rights, to all 100 countries in which we operate around the world. Chevron observes the same code of conduct, the same high ethical standards, and the same safety and environmental concerns wherever we operate. We support your policy of broader, more intense engagement with China as the best means of advancing these ideals.

Respectfully yours,

bcc: The Honorable Roger C. Altman
The Honorable Alexis M. Herman ✓
The Honorable Winston Lord
The Honorable Robert E. Rubin

Ken Derr

Per AMH's Request
Members on Charge
MFN

HOUSE OF REPRESENTATIVES LIST

Committee(s)

Foreign Affairs (11)

Andrews (D-NJ)	Lavy (R-NY)
Borski (D-PA)	Roth (R-WI)
Brown (D-OH)	
Deutsch (D-FL)	
Fingerhut (D-OH)	
McKinney (D-GA)	
Menendez (D-NJ)	
Oberstar (D-MN)	
Sawyer (D-OH)	

Miscellaneous (22)

Applegate (D-OH)	Armay (R-TX)
Brown (D-CA)	Boehner (R-OH)
Clement (D-TN)	Clinger (R-PA)
Costello (D-IL)	Smith (R-OR)
Collins (D-MI)	Shuster (R-PA)
Condit (D-CA)	Zeliff (R-NH)
Ford (D-MI)	Zimmer (R-NJ)
Hayes (D-LA)	
Kildea (D-MI)	
Murphy (D-PA)	
Poshard (D-IL)	
Sarpalius (D-TX)	
Strickland (D-OH)	
Swett (D-NH)	
Volkmer (D-MO)	

Ways and Means (9)

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Coyne (D-PA)	Herger (R-CA)
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LaFalce (D-NY)	Castle (R-DE)
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R.-Allard (D-CA)	McCandless (R-CA)
Velasquez (D-NY)	Ridge (R-PA)
Vento (D-MN)	Roukema (R-NJ)

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Boucher (D-VA)	Goodlatte (R-VA)
Brooks (D-TX)	
Hughes (D-NJ)	
Mazzoli (D-KY)	
Sangmeister (D-IL)	
Schumer (D-NY)	
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Hutto (D-FL)	Bateman (R-VA)
Johnson (D-GA)	Buyer (R-IN)
Mann (D-OH)	Fowler (R-FL)
Meehan (D-MA)	Machtley (R-RI)
McHale (D-PA)	McHugh (R-NY)
Sisisky (D-VA)	McHugh (R-NY)
Skelton (D-MO)	
Tanner (D-TN)	
Tajeda (D-TX)	

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Beilenson (D-CA)	Combest (R-TX)
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Darden (D-GA)	Regula (R-OH)
Dixon (D-CA)	
English (D-OK)	
Fazio (D-CA)	
Meek (D-FL)	
Mollohan (D-WV)	
Murtha (D-PA)	
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Thornton (D-AK)	
Visclosky (D-IN)	
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Brown (D-FL)	Hoekstra (R-MI)
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English (D-AZ)	Hutchinson (R-AK)
Filner (D-CA)	Kim (R-CA)
Hilliard (D-AL)	Miller (R-FL)
Shepherd (D-UT)	Pombo (R-CA)
Thompson (D-MS)	Portman (R-OH)
Thurman (D-FL)	Quinn (R-NY)
Tucker (D-CA)	

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Dingell (D-MI)	Fields (R-TX)
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Lambert (D-AK)	Paxon (R-NY)
Manton (D-NY)	
Mozvinsky (D-PA)	
Rowland (D-GA)	
Sharp (D-IN)	
Studds (D-MA)	
Synar (D-OK)	
Wyden (D-OR)	

SENATE LIST

Moynihan
Boxer

Biden
Bingaman
Breaux
Bryan
Bumpers
Byrd
Campbell
Ford
Glenn
Graham
Harkin
Hollings
Inouye
Mikulski
Moseley-Braun
Pell
Pryor
Reid
Rockefeller
Sarbanes
Sasser
DeConcini
Dodd
Dorgan
Kohl
Lautenberg
Leahy
Levin
Simon
Wellstone
Wofford



Bank of America

Richard M. Rosenberg
Chairman and
Chief Executive Officer

JUN - 5 1994

May 27, 1994

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President;

Your leadership in renewing China's Most Favored Nation status is a bold step in promoting a strong business environment for companies like Bank of America. I commend you for placing the very important human rights issue within the broader context of US-China relations. I agree that the best way to advance human rights in China is through a continuing dialogue between the two countries on a broad range of social, political and economic issues. The United States will certainly bring China more fully into the international community by strengthening our economic and diplomatic ties.

You can count on Bank of America to support your China policy in Congress and to help promote human rights in China. Thank you on behalf of Bank of America's employees and customers for your vision, which will assure important economic benefits and jobs for them and for all Americans.

Sincerely,

cc: Thomas F. McLarty
Michael Kantor
Robert E. Rubin
Laura D'Andrea Tyson
Alexis M. Herman
Bowman Cutter
John H. Gibbons



Bank of America

Richard M. Rosenberg
Chairman and
Chief Executive Officer

May 27, 1994

Handwritten: J. Edgar Hoover

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Handwritten: Miller

Dear Mr. President;

Your leadership in renewing China's Most Favored Nation status is a bold step in promoting a strong business environment for companies like Bank of America. I commend you for placing the very important human rights issue within the broader context of US-China relations. I agree that the best way to advance human rights in China is through a continuing dialogue between the two countries on a broad range of social, political and economic issues. The United States will certainly bring China more fully into the international community by strengthening our economic and diplomatic ties.

You can count on Bank of America to support your China policy in Congress and to help promote human rights in China. Thank you on behalf of Bank of America's employees and customers for your vision, which will assure important economic benefits and jobs for them and for all Americans.

Sincerely,

Handwritten: Richard M. Rosenberg

cc Doris
Amy

Lawrence W. Clarkson
Senior Vice President
Planning & International
Development

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

Anti

May 20, 1994

Alexis M. Herman
Assistant to the President and
Director of Public Liaison
The White House
Washington, D.C. 20500

MAY 23 1994

BOEING

Dear Ms. Herman:

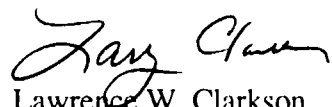
I regret that extenuating circumstances in Seattle have prevented me from meeting with you on the critical issue of extending Most Favored Nation trading status to China. I apologize and hope that we can meet at your convenience at a future date when another issue of this import arises.

In the meantime, I would like to share with you The Boeing Company's thoughts on this important matter by highlighting two dimensions of the issue. The first is the positive contribution that the U.S. business community generally, and The Boeing Company specifically, are making to advance a broad range of U.S. objectives in China. As the enclosed brochure illustrates, Boeing products, services and business relationships have been a positive influence in China and complement America's human rights objectives. Our ability to contribute will be undermined if either targeted sanctions are adopted or mandatory codes of conduct are proscribed.

Second, and more direct is the critical nature of the China market to Boeing's future competitiveness. Last year and this year, one out of every seven Boeing planes delivered will go to China. We are now awaiting news on an Air China procurement valued at up to \$5 billion, including the purchase of several models that will help keep our production lines in operation. Our fortunes and those of our employees and suppliers in Washington State, California and throughout the United States will be directly and immediately affected by the upcoming decision on MFN.

Thank you for your consideration of these issues in the final days of deliberations.

Sincerely,



Lawrence W. Clarkson

cc: Tom Hoog

American Interests and China

- Since 1972, China's economy has been expanding 2.5 times faster than the economies of North America or Europe. China's economic progress is directly related to trade. With trade comes the exchange of ideas and values that are the basis of change. The lives of millions of Chinese have been enriched through this new openness. Normalized trading status will help ensure those reforms continue.
- Private enterprise in China continues to expand. State-run monopolies are being broken up; foreign investment is encouraged; and privately owned small businesses are mushrooming.
- Economic freedoms and trade are fostering political reform, as has been the case elsewhere in Asia.
- More and more people are being allowed to travel into and out of China.
The Chinese government approved 96 percent of all tourist travel applications for its citizens in 1993, compared to 80 percent in 1992. As a result, more than 700,000 Chinese tourists went abroad last year for personal reasons.
In 1993, 16.6 million foreign visitors went to China, compared to 9.5 million in 1992.
- Beijing's openness in past years has enabled tens of thousands of Chinese students to study in the United States and take back with them an appreciation for American ideals and freedoms.

Active, constructive engagement with China is advancing U.S. strategic, commercial, humanitarian, and national security interests.

American Business and China

- U.S. exports to China have nearly doubled since 1990. In 1993, China imported almost \$9 billion in U.S. goods, including 46 jetliners from Boeing worth \$2.1 billion.
- U.S. exports to China support hundreds of thousands of U.S. jobs, mostly in high-wage, high-skill areas. Of these jobs...
 - 28 percent are in aerospace,
 - 16 percent are in power-generating machinery,
 - 6 percent are in computers and electric machinery,
 - 6 percent are in medical instruments, and
 - 3 percent are in chemicals.
- Boeing as of Jan. 1, 1994, had firm orders from China's airlines for 64 airplanes worth \$3.9 billion. It is estimated that \$2 billion to \$3 billion in additional near-term orders would be at risk if MFN is revoked. More than the near-term effect, this would give non-U.S. competitors a long-term foothold in the important China market.
- Air travel in China meanwhile continues to grow at record pace. Domestic air traffic growth has averaged 22 percent per year over the past 17 years.
- By the year 2000, China's air traffic is expected to increase at least threefold over 1992 traffic.
- During the next 15 years, China will need 800 airplanes worth \$40 billion, making it the third largest commercial aviation market after the U.S. and Japan.

Access to the rapidly growing Chinese market is essential to America's effort to retain its leadership position in commercial aviation and in other fields.

Boeing and China

From pilot training to air traffic control procedures, China is adopting Western standards and practices to further modernize and open the country.

- Boeing has been involved with China since 1972 when a contract for 10 Boeing 707s was signed.
- Today, Boeing jetliners are the mainstay of China's air travel and cargo system, enabling a greater movement of people and commerce than ever before.
- 13 Chinese airlines now fly more than 170 Boeing aircraft. The number will soon rise to 15 airlines and 234 aircraft.
- Boeing field service personnel work full time in 13 cities throughout mainland China.
- Last year, Boeing trained more than 800 Chinese pilots and maintenance technicians, twice as many as in 1992. Training serves to help broaden Chinese understanding and appreciation of American business and operational systems.
- In addition to pilot and maintenance training, Boeing is teaching safety management to airline and airport personnel throughout China. And, in 1994, Boeing began working with Chinese officials to determine how best to improve China's air traffic control system and procedures.
- China has been a reliable Boeing supplier since 1980, providing major assemblies for the 737 and 757. Progressive business relationships have been taking place day-by-day for 14 years and continue to expand in depth and scope.

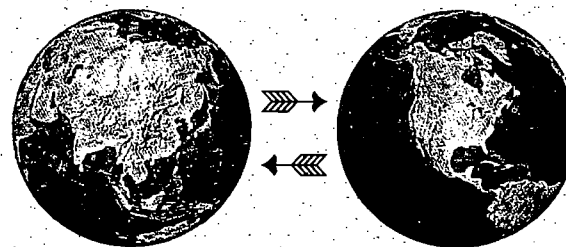
Boeing products, services and business relationships have been a positive influence in China and complement America's human rights objectives.

In Summary...

The Boeing Company believes that a U.S. policy of active, constructive engagement with China, including continuation of Most Favored Nation trading status and coupled with continued judicious use of appropriate policy tools, is the best means of advancing U.S. interests while encouraging economic and political reform in China.

The delinking of various bilateral issues from the Jackson-Vanik amendment mandate for annual MFN renewal has enabled the United States Government to more effectively address such concerns as intellectual property rights, arms proliferation, textile quotas and technology transfer.

For millions of Chinese and Americans, engagement is working and should continue.



For more information, contact:

The Boeing Company
1700 No. Moore Street
Arlington, VA 22209
703-558-9663

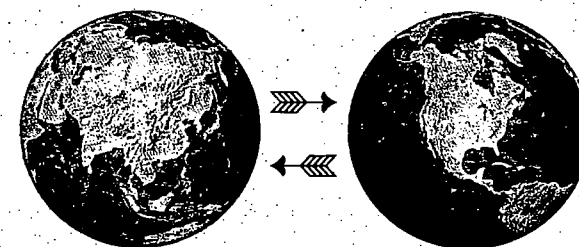
or

Boeing Commercial Airplane Group
Public Relations
P.O. Box 3707 (MS 65-47)
Seattle, WA 98124
206-237-1710

April 1994

The Importance of Normalized Trade between the United States and China

*from the perspective of
The Boeing Company*



Boeing has been actively involved in China for more than 20 years. The company's products, services and business relationships have had a positive influence in China.

Normalized trade will promote stability in China, further catalyze China's market reforms, and in concert with those reforms stimulate the exchange of ideas and values that are fundamental to the cause of human rights.

At stake is the wellbeing of the Chinese people who are benefiting from China's increasing openness. Also at stake are hundreds of thousands of U.S. jobs dependent upon products sold to China.

Constructive engagement is positively affecting the lives of millions – at home and abroad. The Boeing Company believes it is in the best interests of the Chinese and American people for that policy to continue.

BOEING

BOEING



MAY 19 1994

May 18, 1994

Dear Friend:

As the June 3 deadline on MFN status for China bears down on President Clinton, the time is ripe to re-examine our relationship with China. Chief among the questions we should ask is: Should this relationship be linked so closely to the annual ritual of renewing China's MFN status? Senior Fellow Robert A. Manning makes the case that it should not in this new policy report from PPI, "Starting Over: From MFN to a China Policy for the Future."

"Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear proliferation, regional security, market-oriented economic ties and democratic change within China itself," Manning writes. "President Clinton should unlink MFN from human rights conditionality and articulate a new U.S. policy toward China based on a calculus of U.S. priorities to advance our interests in nonproliferation, regional security, commerce, and democratic change."

In the report, Manning proposes alternatives to the MFN lever, which he argues is "simply too blunt an instrument" to define our relationship with the world's most populous nation and by some measures its third largest economy. The report also details the damage the Chinese retaliation will inflict on the U.S. economy should we fail to extend MFN.

I believe you will find this report to be a timely addition to the debate.

Sincerely,

A handwritten signature in black ink, appearing to read "Chuck Alston". The signature is fluid and cursive, with a prominent initial 'C'.

Chuck Alston
Communications Director

Right Goal, Wrong Weapon: Human Rights and MFN for China

"It is not clear that external pressure damaging China's trade will influence the government in positive ways....MFN status helps our economic reforms and in the long run that will help improve human rights." Chinese dissident Yang Zhou.

President Clinton must decide by June 3 whether to extend most-favored-nation (MFN) status to China. In a concession to Congressional opponents of China MFN, the President issued an executive order last year requiring him to certify that progress had been achieved in China's human rights record in order for MFN to be extended. The Administration seems willing to extend MFN. It has also made it clear to Beijing that further progress is still necessary before the June 3rd deadline.

Misleading semantics distort the debate. MFN status is not a concession and it *does not* mean that China is our most favorite nation. Rather, MFN status means that China and the United States grant each other the same—no *less* favorable—tariff treatment they provide to other respective trading partners granted MFN status. The United States has reciprocal MFN arrangements with some 180 other countries—including Iran, Iraq, Libya, Burma, and even South Africa under apartheid.

Opponents of MFN argue that there has been little if any progress in China on human rights and they are prepared to introduce legislation to bar MFN. The problem is that MFN is simply too blunt an instrument to define U.S. relations with China, a nation with 1.2 billion people—22 percent of humanity—a permanent seat on the U.N. Security Council, by some measures the world's third largest economy, and a nuclear and missile arsenal. Without relenting in our criticism of China's mistreatment of its own people, we must find ways to engage China across a broader spectrum. *Moreover, as a great power emerging from more than a century of foreign invasion and occupation, China is more likely to respond positively to dialogue and consultation than to ultimatums.*

Denial of MFN status would:

- ▶ **Undermine Sino-American cooperation on vital security issues**, such as halting North Korea's quest for nuclear weapons, forging a nuclear test-ban treaty and otherwise strengthening international nonproliferation norms and institutions, and military-to-military dialogue.
- ▶ **Severely damage a \$40 billion U.S.-China trade relationship** and jeopardize some \$9 billion in U.S. exports to China, \$10 billion in committed U.S. investment in China, and 200,000 jobs related to exports to China, as Beijing would retaliate against U.S. goods. U.S. tariffs on the \$31.5 billion in Chinese goods we import would increase by an average of 50 percent, pricing many of the cheap consumer goods Americans rely on out of the U.S. market. A recent World Bank study cites an estimate that

denying MFN status would cost U.S. consumers as much as \$14 billion annually.¹

► **Endanger U.S. competitiveness** in a rapidly growing economy. Boeing already has orders for 64 planes worth \$4 billion and estimates that China will need 800 airplanes worth \$40 billion in the next 15 years. According to projections, China will need \$90 billion in power-generation equipment during the rest of this decade, \$29 billion in telecommunications equipment over the next five years, \$18.2 billion in oil and gas equipment in the next three years, and \$5 billion in computers over the next eight years. In a trade environment poisoned by loss of MFN status, will China choose Boeing over Airbus, Chrysler over Mercedes?

► **Adversely affect Hong Kong and Taiwan.** The economies of Hong Kong and Taiwan are increasingly integrated into a single, greater Chinese economy. Hong Kong is the entrepot for 64 percent of Chinese exports to the United States. The Hong Kong government estimates that denying China MFN status would cost it \$24 billion in trade, \$3.4 billion in income, and 75,000 jobs. Taiwan has more than \$20 billion in annual trade with the mainland and some \$20 billion invested in it.

► **Isolate the United States.** No other G-7 nation or any Asian nation is considering denying China MFN. Doing so would isolate the United States and benefit economic competitors. It also would contribute to what Assistant Secretary of State Winston Lord called a "malaise" plaguing the U.S. image in Asia, which has a reputation as "an international nanny, if not bully."²

► But most of all, it would **set back human rights** and destabilize economic reform in China. *Indeed, the best reason to guarantee MFN status for China is that it buttresses economic and social forces that are creating demand there for political change.*

The United States should craft a new policy toward China that combines clear and unchanging strategic aims with a higher degree of tactical flexibility.

Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear proliferation, regional security, market-oriented economic ties, and democratic change within China itself. President Clinton should unlink MFN from human rights conditionality and articulate a new U.S. policy toward China based on a calculus of U.S. priorities to advance our broader interests in nonproliferation, regional security, commerce, and democratic change.

Instead of lecturing Beijing, which simply evokes petulant non-cooperation, the United States should engage more directly with the people of China—especially a new generation with rising expectations of prosperity and freedom. Instead of trying to change China from the outside in, we should explore new ways to bolster Chinese reformers working to transform their society from the inside out.

Political reform in China, like economic reform there, will not be smooth; there will be success and setbacks. The challenge for the United States is to reinforce those forces—entrepreneurial growth and the flowering of civic life—that are revolutionizing Chinese society and building pressures for political change.

¹ See China: Foreign Trade Reform, The World Bank, February, 1994, pps. xxix.

² See "U.S. Aide Sees Relations With Asia in Peril," *The Washington Post*, May 5, 1994, p. A38.



POLICY REPORT
May 1994
No. 20

**STARTING OVER: FROM MFN
TO A CHINA POLICY FOR
THE FUTURE**

by

Robert A. Manning

About the Author

ROBERT A. MANNING is currently Senior Fellow at the Progressive Policy Institute and Research Associate at the Sigur for East Asian Studies of George Washington University. He has written widely on international affairs, with articles appearing in *Foreign Affairs*, *Foreign Policy*, *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *Los Angeles Times*, *The New Republic*, *International Herald Tribune*, *World Policy Journal*, *Asahi Shibun*, *Chuo Koron*, and other publications.

Until March 1993, Mr. Manning was Advisor for Policy to the Assistant Secretary of State for East Asian and Pacific Affairs. He has also been an advisor to the Office of the Secretary of Defense. From 1985 to 1987, he was Diplomatic Correspondent for *U.S. News and World Report*; and prior to that, he was a Washington correspondent for the *Far Eastern Economic REVIEW*.

Born in Bronx, New York, Mr. Manning received his bachelor's degree in history from California State University. He is the author of BACK TO THE FUTURE: Towards a Post-Nuclear Ethic -- The New Logic of Nonproliferation (Progressive Foundation, 1994).

Acknowledgements

The author would like to express thanks to Will Marshall and Steven Nider of the Progressive Policy Institute for their support and advice.

STARTING OVER: FROM MFN TO A CHINA POLICY FOR THE FUTURE

by Robert A. Manning

Introduction

Crafting a constructive relationship with China epitomizes the core challenges to U.S. foreign policy: how to balance American interests and values, how to match means and ends, how to mesh aspirations and capabilities. Similarly, the current debate over most favored nation (MFN) status for China raises a much larger question: What is the rationale of post-Cold War U.S. relations with China? Is there a strategic basis for Sino-American relations—as partner or adversary? Is cooperation on problems such as North Korea paramount, or should human rights issues continue to be the singular measure of U.S. policy toward China? The decision President Clinton will make by June 3 on extending MFN status to China will shape the answers to these key questions.

F. Scott Fitzgerald once said the mark of a superior intellect is the ability to hold two opposing ideas in one's mind and still be able to function. China presents Americans with such a challenge. On the one hand, China is a political anachronism led by a band of octogenarian autocrats stubbornly defying the tide of freedom that has swept the rest of the communist world. On the other hand, there is a new, entrepreneurial China, a nascent market economy that is inexorably undermining the props of authoritarian rule.

Dealing with this ambiguous reality demands a more supple and sophisticated strategy than America has managed thus far. The challenge for the United States is to craft a new policy toward China that combines clear and unchanging strategic aims with a higher degree of tactical flexibility.

The principal obstacle to a full-fledged, equal partnership between the United States and China—and to China's quest for the respect due a great nation—remains the communist monopoly on political power. At the same time, overlapping interests—nonproliferation, regional stability, and market-oriented growth—offer a prospective basis for a more productive U.S.-China relationship than the recent cycle of recriminations.

Our challenge is to work with Beijing where our interests coincide, as we did with the former Soviet Union. At the same time we must be clear about differences and work to bridge them when possible, yet pursue policies that, however modestly, nourish the emerging social forces that will hasten a political pluralism parallel to the change unfolding in the economic realm. Without

question, expanding freedom in China is a central goal of U.S. policy. The debate is really about the best way to attain that objective. China's opening to the West and its market-oriented reform is the most powerful force for change in its modern history, in part because it is internally generated, not imposed from abroad.

This paper's premise is that linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear nonproliferation, regional security, market-oriented economic ties, and democratic change within China itself. President Clinton has a rare opportunity to re-establish a bipartisan consensus for a sensible post-Cold War China policy by unlinking MFN renewal from particular human rights issues (without imposing lesser sanctions) and by articulating a different approach to human rights and political change that reflects a considered calculus of national priorities.

A New Moment

The crushing of democratic hopes in Tiananmen Square in 1989 shattered the bipartisan consensus for U.S. relations with China painstakingly built over two decades by five administrations, Democratic and Republican. Five years after Tiananmen, the memory of the massacre of unarmed demonstrators remains etched in the American psyche, though it increasingly coexists with images of a more complex China. Post-Tiananmen disillusionment with China fits a 150-year pattern of wild swings in the U.S. view of China. Americans embraced it when we felt it was becoming like us and bitterly disappointed when events such as Tiananmen suggest it is not. *It is time to declare a statute of limitations on Tiananmen.*

Even had Tiananmen never happened, the end of the Cold War would have mandated a reassessment of U.S. policy toward China. One of the major uncertainties facing the Asia-Pacific—indeed, the entire international system—is the future role of China, a nation in the throes of generational political succession and a difficult economic transition. The character of Sino-American relations will greatly influence whether China plays the role of a modernizing, liberalizing nation at peace with itself and its neighbors, acting as a responsible global power that adheres to international norms, or whether it plays largely by its own rules.

President Clinton rightly criticized his predecessor's status quo mind-set in regard to democracy in China. He also argued that, with the collapse of the Soviet Union, the time had come to discard the "China card" and define a new relationship with China for the post-Cold War era. His Administration has begun to move toward a new policy of engagement that holds the promise of creating a stable basis for U.S.-China relations. Yet it also has jeopardized that prospect by renewing the annual MFN ritual.

MFN is simply too blunt an instrument to define U.S. relations with China, a nation with 1.2 billion people—22 percent of humanity—a permanent seat on the U.N. Security Council, by some measures the world's third largest economy, and a nuclear and missile arsenal. Without relenting in our criticism of China's mistreatment of its own people, we must find ways to engage China across a broader spectrum of interests and concerns. Moreover, as a great power emerging from more than a century of foreign invasion and occupation, China is more likely to respond positively to dialogue and consultation than to ultimatums.

Human rights and political reform are part of a much larger U.S.-China agenda that also includes strategic, economic, and cultural/scientific issues. The thread that links all these issues, the cardinal U.S. policy goal, must be to facilitate China's integration into the emerging international economic and political system and to help foster its difficult but inescapable economic and political transformation. These objectives are not all equal: Strategic and economic issues are top priorities and should dictate how trade-offs occur. A one-dimensional policy that holds the entire relationship hostage to a single objective is counterproductive. Unilateral pressure on human rights, particularly sanctions, is rarely effective. One lesson of China policy since Tiananmen is that human rights policy tends to be more effective when it reflects a multilateral consensus.

While America has a moral obligation to condemn flagrant human rights violations in China, it has a strategic interest in China's evolution toward political pluralism and representative government. The spread of free institutions in China will constrain the regime's aggressive conduct at home and abroad and enhance the prospect that China will abide by international norms on trade, nonproliferation, the environment, and other issues. Indeed, the best reason to guarantee MFN status for China is that it buttresses economic and social forces that are creating demand there for political change.

President Clinton should use his decision on MFN to unlink it from human rights conditionality and articulate a new U.S. policy toward China based on advancing our broader interests in nonproliferation, regional security, commerce, and democratic change. Instead of lecturing Beijing, which simply evokes petulant noncooperation, the United States should engage more directly with the people of China—especially a new generation with rising expectations of prosperity and freedom. Instead of trying to change China from the outside in, we should explore new ways to bolster Chinese reformers working to transform their society from the inside out. Such alternatives include:

- ▶ creating a U.S.-China bilateral human rights commission composed of official and nongovernment organizations (NGO) and individuals as the centerpiece of a dialogue aimed at keeping the spotlight on human rights;

- ▶ pressing other governments at the July G-7 economic summit to propose that their respective private sectors voluntarily adopt a uniform code of conduct for doing business in China;
- ▶ banning the import of Chinese-made guns, particularly assault rifles, which profit firms run by the People's Liberation Army (PLA);
- ▶ expanding official and NGO contacts;
- ▶ closely monitoring the implementation of Beijing's commitments under the 1984 U.K.-China accord for a 1997 transition to Chinese rule in Hong Kong, benchmarking the Chinese commitment to maintain Hong Kong's social and economic system for 50 years;
- ▶ creating a joint U.S.-China commission for a dialogue on constitutionalism and rule of law.

Why MFN?

The problem with MFN status begins with the unfortunate, misleading semantics that distort the debate. MFN status is not a concession or foreign aid. Granting MFN status to China does not mean that China is our most favorite nation, that we are granting the country a special privilege or that we are doing China a favor. Neither does it mean that we give "favorable tariff rates to Chinese exports," as a Senate Democratic Policy Committee report argued.¹ Rather, MFN status means that China and the United States grant each other the same—no *less* favorable—tariff treatment they provide to other respective trading partners granted MFN status. MFN is merely the normal basis for international trade, established under the General Agreement on Tariffs and Trade (GATT). The United States has reciprocal MFN arrangements with some 180 other countries—including Iran, Iraq, Libya, Burma, and even South Africa under apartheid.

Indeed, more than 100 countries *do* receive more favorable tariff treatment through agreements such as the Generalized System of Preferences, the North American Free Trade Agreement, and the Caribbean Basin Initiative, to cite a few. Withdrawing MFN is an extraordinary act that would impose higher tariff rates likely to destroy a burgeoning \$40 billion economic relationship with one of the world's largest and fastest-growing economies (and U.S. export markets).

¹ Democratic Policy Committee, *Special Report: China MFN Status*, U.S. Senate, May 3, 1994.

MFN status became the means to express American moral outrage and concern for human rights largely by historical accident: The 1974 Jackson-Vanik amendment to a trade bill offered a convenient instrument. The Jackson-Vanik legislation was designed to use then-President Nixon's detente policy (he wanted to grant the Soviet Union MFN status) as a vehicle to force Moscow to permit Jewish emigration.² It is important to note that at the time U.S.-Soviet trade was all but nonexistent. Jackson-Vanik required that MFN status for non-market economies, a category that included China, be renewed annually based on emigration criteria. However, emigration has not been a serious concern with regard to China. And with some 50 percent of the country's economy privatized, a case can be made for removing China from the category of non-market economies and hence from Jackson-Vanik requirements.

Since Tiananmen, Jackson-Vanik's MFN provisions have become a vehicle for congressional reprisals on China. What started as an expression of legitimate outrage at communist repression—and impatience with the Bush Administration's business-as-usual attitude—became a static and overly simplistic view that China should be punished with every means at hand. Amid much feckless moralizing, China-bashing became the vogue, with the added incentive of scoring partisan points against President Bush. In Christmas tree-like fashion, Congress added conditions to MFN renewal as though it were stringing lights on a Christmas tree—including conditions on trade, human rights, weapons proliferation, and other concerns that had been vetoed during the Bush years of divided government.

Whatever their merit, these "in-your-face" actions created a confrontational atmosphere and stoked paranoia among Chinese leaders, particularly the politically influential military. *These measures, some concrete, some symbolic, ignored important economic and social realities in China. And by provoking Beijing on its most sensitive issue—sovereignty (particularly in resolutions regarding Taiwan and Tibet)—they poisoned the diplomatic atmosphere, confounding our ability to make progress on precisely those issues of congressional concern.* On its own terms, MFN conditionality has not worked. On the contrary, it has put the entire relationship at risk while failing to substantially alter Beijing's political or legal system.

The New Realities of China

Sino-American realities are far more complex and ambiguous than the lingering images of tanks facing down demonstrators. While the U.S. media have

² See Paula Stern, *Water's Edge: Domestic Politics and the Making of U.S. Foreign Policy*, Greenwood Press, 1979, for a detailed history of the Jackson-Vanik legislation.

focused on continued repression, since Tiananmen the Chinese economy has been growing at roughly 10 percent a year as its market-oriented reforms have continued to advance. Since 1989, U.S. trade with China has roughly *doubled*, to \$40 billion in 1993, with China's total foreign trade reaching \$200 billion. The armies of Avon ladies in Guangdong province are as much a part of China today as is the PLA. Country and western discos in Shanghai, underground films, and the PLA's selling and installing satellite dishes that bring MTV and CNN to China are as much a reality as state censorship.

To be sure, China's entrepreneurial boom by itself does not guarantee a peaceful evolution toward democracy. But as Chinese economic reform has progressed, it has substantially improved the quality of life of ordinary Chinese. The 1994 State Department human rights report, while sharply critical of Beijing's overall human rights record, pointed to positive trends:

A decade of rapid economic growth, spurred by market incentives and foreign investment, has reduced party and government control over the economy and permitted ever larger numbers of Chinese to have more control over their lives and livelihood. Despite significant income disparities between coastal regions and the interior, there is now a growing middle class in the cities and rural areas as well as a decline in the number of Chinese at the subsistence level.

Fifteen years of market-oriented reform has also altered the relationship of individuals to the state and reduced Beijing's control over the regions. Growing privatization has empowered individuals and reduced their reliance on the state. Provinces act with increasing autonomy. Already the state accounts for barely 50 percent of GNP, and, if current trends continue, it may account for about one-third by the end of this decade.³ The role of the *dan-wei*, or work unit, the basic mechanism of communist control over individuals—dictating where to live, work, go to school, and more—has diminished greatly with economic liberalization.

The emergence of a social strata of entrepreneurs, intellectuals, technocrats, and professionals, produced by dynamic economic growth, led to democratic transformations in South Korea, Taiwan, and Thailand over the past decade. While it is not inevitable, it is likely that similar social forces will produce similar political change in China. *A U.S. strategy of engagement should be aimed at nurturing and cultivating these elements in China that will be the harbingers of democratic reform.*

Former Chinese activist Pei Minxin, now a professor at Princeton, has argued that economic and civic rights must be factored into the equation in measuring human rights progress. Pei points to the great expansion since 1978 of

³ See *The Economist*, "A Survey of China," November 28, 1992.

internal travel, choice of residence, autonomous civic organizations, and, perhaps most important, access to information. There are now almost seven times as many newspapers and magazines in China (7,361) as there were in 1978; where one in 300 people had a TV in 1978, now it is one in five.⁴ Some 100 million Chinese have access to satellite dishes bringing CNN, MTV, and more.

Yet China's opening to the world and its burgeoning civil society seem to have been missing from the Administration's calculus concerning MFN renewal. Indeed, the executive order President Clinton signed in May 1993 is based on a narrow set of considerations, cosmetic in regard to China's political and judicial system, that requires China to be a bit more accountable on certain human rights practices. It requires China to:

- ▶ comply with Jackson-Vanik emigration criteria and with the 1992 bilateral accord on prison labor exports;
- ▶ make "*overall, significant progress*" with regard to 1) adherence to the universal declaration of human rights, 2) the release of and acceptable accounting for Chinese citizens imprisoned or detained for nonviolent expression of political or religious beliefs, including in the Democracy Wall and Tiananmen movements, 3) the humane treatment of prisoners and access to prisons by international humanitarian organizations, 4) the protection of Tibet's religious and cultural heritage, and 5) granting permission for international radio and television broadcasts.

What If...

An assessment of the consequences of denying MFN status to China suggests why it is not only the wrong instrument to promote human rights but is, in effect, a gun pointed as much at our own head as China's. Denial of MFN status would:

- ▶ **Undermine Sino-American cooperation on vital security issues**, such as halting North Korea's quest for nuclear weapons, forging a nuclear test-ban treaty, and otherwise strengthening international nonproliferation norms and institutions, and military-to-military dialogue.

⁴ See Pei Minxin, "Here's Evidence of a Kinder, Gentler China," *Asian Wall Street Journal*, March 30, 1994.

- ▶ **Severely damage a \$40 billion U.S.-China trade relationship** and jeopardize some \$9 billion in U.S. exports, \$10 billion in committed U.S. investment in China, and 200,000 jobs related to exports to China, as Beijing would retaliate against U.S. goods. U.S. tariffs on the \$31.5 billion in Chinese goods we import would rise by an average of 50 percent, pricing many of the cheap consumer goods Americans rely on out of the U.S. market. A recent World Bank study cites an estimate that denying MFN status would cost U.S. consumers as much as \$14 billion annually.⁵

- ▶ **Endanger U.S. competitiveness** in a rapidly growing economy. Boeing already has orders for 64 planes worth \$4 billion and estimates that China will need 800 airplanes worth \$40 billion in the next 15 years. According to projections, China will need \$90 billion in power-generation equipment during the rest of this decade, \$29 billion in telecommunications equipment over the next five years, \$18.2 billion in oil and gas equipment in the next three years, and \$5 billion in computers over the next eight years.⁶ In a trade environment poisoned by loss of MFN status, will China choose Boeing over Airbus, Chrysler over Mercedes?

- ▶ **Adversely affect Hong Kong and Taiwan.** The economies of Hong Kong and Taiwan are increasingly integrated into a single, greater Chinese economy. Hong Kong is the entrepôt for 64 percent of Chinese exports to the United States. The Hong Kong government estimates that denying China MFN status would cost it \$24 billion in trade, \$3.4 billion in income, and 75,000 jobs. Taiwan has more than \$20 billion in annual trade with the mainland and some \$20 billion invested in it.

- ▶ **Isolate the United States.** No other G-7 nation or any Asian nation is considering denying China MFN. Doing so would isolate the United States and benefit economic competitors. It also would contribute to what Assistant Secretary of State Winston Lord called a "malaise" plaguing the U.S. posture in Asia, with an image as "an international nanny, if not bully."⁷

⁵ See "China: Foreign Trade Reform," The World Bank, February, 1994, pps. xxix.

⁶ See "Beijing and the Business of Human Rights," *Financial Times*, March 16, 1994, p. 6.

⁷ See "U.S. Aide Sees Relations With Asia in Peril," *The Washington Post*, May 5, 1994, p. A38.

- But most of all, it would **set back human rights** and destabilize economic reform in China. Denying MFN status would disrupt the engine of economic reform in southern China, create massive unemployment and instability, reinforce hard-liners by allowing them to galvanize Chinese nationalism during the post-Deng succession struggle, and spend all U.S. leverage.

Engagement For What?

It was precisely the search for a more coherent way to pursue our interests and our values that led President Clinton last September to adopt a new strategy of engagement. This development reflected growing sentiment within the Administration that China's economic boom is diffusing power from the communist center; that the trade and investment prospects offered by China's persistent 10 percent annual growth and accelerating economic reform are too beguiling to miss; and that concern over nuclear proliferation, especially in North Korea, trumps other concerns that do not directly threaten U.S. security. The Administration's emphasis on geoeconomics has led it to focus on Asia in general and China in particular, as evidenced in last November's meeting of the Asian Pacific Economic Cooperation (APEC) forum. But it also has made the Administration increasingly aware of an emerging new reality looming over the entire international system: the prospect—unprecedented in modern history—of an economically dynamic, militarily powerful, politically unified, and globally engaged China approaching the 21st century.

During the four decades preceding Tiananmen there were clear strategic rationales for U.S.-China relations. From 1949 to the Nixon-Kissinger opening in 1971, Cold War anti-communism propelled the confrontational stance toward Maoism; from 1971 until 1989 the "strategic triangle" of the United States, the Soviet Union, and China provided the basis for U.S.-China ties as well as for much of U.S. security policy. But in Tiananmen's aftermath, the U.S.-Chinese relationship has been, as one frustrated senior U.S. official put it, "the sum of its irritants."

A different approach can foster a new equilibrium in Sino-American relations, positioning the United States for the inevitable political turmoil that will flow from both Deng Xiaoping's passing and the likely bursting of China's bubble economy. Perhaps most important, a new approach can test the possibilities and limits of partnership with Beijing. *The Clinton Administration's new challenge will be to set operational priorities, disaggregate the various baskets of issues, and establish benchmarks for Chinese behavior; in essence, to develop an index of leading indicators for gauging Chinese international behavior.*

But what is the strategic rationale for the U.S.-China relationship? Assistant Secretary of State Lord articulated the basis of Sino-American relations: "We don't want to contain China or isolate it. We want to see China integrated into the world political and economic structure."⁸ This view is based on the recognition that China will be one of three or four major poles in the post-Cold War international system.

China's foreign trade is growing exponentially, heightening the urgency of a more transparent trade and financial system in accord with international norms. Similarly, China is one of the principal independent variables on every strategic issue from post-START arms control to a comprehensive test-ban treaty, on missile proliferation, on regional security issues from Southwest Asia to East Asia, and on global environmental issues.

The goal of integrating China is also based on the assumption that China's paramount goal is economic modernization. With a rapidly growing global trade relationship (some \$200 billion annually) and burgeoning foreign investment, China's economic future is clearly linked to the world system. What's more, no political faction in Beijing disputes the basic direction set by Deng; the policy debates are over the pace and scope of economic reforms. The goal also is based on the implicit assumption that China is not an ideologically driven expansionist power as was the former Soviet Union. Rather, the assumption is that China seeks secure borders and respect as a dominant power in East Asia whose interests should be taken into account on regional political affairs and as a major global power to be consulted on international issues.

Chinese foreign policy has sought to create a stable regional environment conducive to its internal modernization. Since Tiananmen, Chinese diplomacy has been enormously successful: Beijing has normalized relations with Russia, forged unprecedented ties with India, bolstered both economic and political relations with Japan, broken with North Korea, and opened full diplomatic relations with South Korea. In Southeast Asia, China has normalized ties to Vietnam, won a Vietnamese withdrawal from Cambodia, and achieved a peace accord in Cambodia placing longtime Chinese friend Prince Sihanouk in power. In addition, China has normalized ties with Singapore and Indonesia and generally enhanced its ties to the members of the Association of Southeast Asian Nations (ASEAN).

It is precisely because Beijing enjoys the most serene security environment it has known this century that China's military buildup has raised serious concerns. China's military modernization, including plans for a blue-water navy and a larger nuclear arsenal, raises questions about its intentions. Since 1988, it

⁸ See *The Far Eastern Economic Review*, November 14, 1993, p. 22.

has increased its defense budget by more than 10 percent annually, even as the United States and Russia have sharply curtailed theirs. Over the past two years, China has purchased some \$2 billion in military hardware and technology from Russia and employed up to several hundred Russian scientists and technicians, and last year the country signed a military cooperation agreement with Moscow. Beijing's "Russian connection" likely will enable it to leapfrog a generation of military technology, in particular in guidance systems, solid-fuel missile capabilities, submarine technology, and combat aircraft.

On the other hand, even accepting the high end of U.S. estimates, China's total military spending is still only \$22 billion, slightly more than half the size of Japan's. China also lacks any significant ability to project force, though it is seeking it with breakneck speed.

At the same time, Beijing has outstanding territorial disputes with India (though there has been major progress toward resolving border issues), Vietnam, Malaysia, the Philippines, and Brunei. It also has a dormant territorial dispute with Japan, and it has refused to rule out the use of force against Taiwan. These circumstances fuel suspicions about Chinese intentions, which are heightened by its non-democratic character.

The most likely near-term venue for conflict is the purportedly oil-rich Spratly Islands in the South China Sea, where China and Vietnam have had minor clashes as recently as 1988. The Chinese raised hackles across East Asia with passage of a February 1992 law declaring Chinese sovereignty over the entire South China Sea (and the Senkakus to the north), including the right of passage in contravention to the Law of the Seas. This action reflects a 19th century geopolitical mindset that is out of sync with the information age, in which real estate is diminishing as a barometer of national power. But for China, emerging after more than a century of national humiliation punctuated by foreign invasion and occupation, issues of national pride have a special import. Indeed, nationalism is likely to be an important tool for establishing legitimacy and sustaining national unity for a post-Deng regime.

On the strategic front, China's 90-kiloton nuclear test in October 1993 appears to be part of a modernization program for Beijing's nuclear triad. U.S. defense experts saw the October test as part of a move toward more mobile, more accurate solid-fuel missiles, in particular a new ICBM resembling the SS-25, Russia's top-of-the-line strategic missile, with a range of some 8,000 miles. Beijing is also believed to have tactical nuclear weapons.

Evolution of Clinton's Policy

This lengthy substantive agenda underscores why holding the entire Sino-American relationship hostage to MFN status does not work. Doing so launched a political roller coaster ride that brought U.S.-Chinese relations to the brink of confrontation in 1993. The past year of conflicting objectives, inept interagency coordination, and poor tactical execution produced a negative cycle of action-reaction, creating a political atmosphere that made it more difficult for China to meet U.S. conditions. On the other side, irresponsible actions by China, often accompanied by a brazen disregard for international trade, human rights, and nonproliferation norms, made a bad situation worse.

Bill Clinton entered office against a backdrop of rhetoric reflecting competing goals. In a campaign speech in Milwaukee in October 1992, he said:

...the tremors of change continue to shake China. We do not want China to fall apart, to descend into chaos or go back into isolation. But rather, we want to use our relationship and influence to work with the Chinese for a peaceful transition to democracy and the spread of free markets.

In March 1993, with the annual MFN debate looming, President Clinton sent a letter to Beijing listing 14 issues of concern in three broad categories: human rights, proliferation, and trade. He suggested that if China took steps to satisfy these concerns, it would facilitate the MFN debate. This fanned Chinese fears, and, while the details of these exchanges have not been made public, Beijing, unamused, sent Clinton its own list of desired actions for U.S. policy.⁹

The 1993 MFN debate ended in a deal: Congress agreed to renew Beijing's trade status in return for Clinton's issuing an executive order outlining a set of conditions on human rights. Brokered with the support of Senate Majority Leader George Mitchell (D-Maine) and Rep. Nancy Pelosi (D-Calif.), who had led the charge against Bush, the deal also precluded President Clinton from waiving the human rights conditions on national security or other grounds. With a Democrat in the White House, the China issue seemed to be losing its political edge.

Yet no sooner had Clinton signed the executive order, which promised to stabilize China policy for at least a year, than things began to unravel. In July and August, a series of controversies over human rights, trade, and proliferation erupted in rapid succession. Beijing refused to allow a previously detained labor activist, Han Dongfang, to return to China and also jailed several dissidents. Disputes loomed over textiles, illegal rhinoceros horn imports, and lack of progress

⁹ See Don Oberdorfer, "Replaying the China Card," *The Washington Post*, November 7, 1993, p. C3.

in market access. U.S. opposition—on human rights grounds—to Beijing's bid to host the 2000 Olympics, a national cause in which China had invested considerable public face, outraged the Chinese leadership.

Perhaps most explosive, however, was a series of strategic issues pertaining to Chinese adherence to international nonproliferation norms. In July, U.S. intelligence began tracking a Chinese freighter, the Yin He, believed to be carrying a shipment of ingredients for chemical weapons to Iran. (China has signed the Chemical Weapons Convention, though it does not go into effect until 1995.) By early August U.S. admonitions to China and demands to inspect the ship's cargo had emerged as a very public confrontation, with China humiliated and affronted by the heavy-handed U.S. tactics. The affair ended with an equally public U.S. embarrassment when Beijing permitted an inspection of the ship docked at the Saudi port of Darhein and no proscribed chemicals were found.

At the same time came a rancorous dispute over Chinese export of M-11 missile technology to Pakistan. China had pledged to adhere to the Missile Technology Control Regime (MTCR) and had specifically made a commitment to Secretary of State James Baker that it would not sell M-11s to Pakistan. Yet by early 1993, U.S. intelligence agencies had acquired hard evidence of M-11 technology transfers to Pakistan. In July, Undersecretary of State Lynn Davis went to Beijing in an unsuccessful last-ditch effort to avoid imposing sanctions (the United States is the only country that legislates or has imposed sanctions for MTCR control-list violations).

Davis' visit was particularly acrimonious. China, angered by U.S. sales of F-16 jets to Taiwan, refused to even discuss the issue. Beijing claimed adherence to MTCR (the M-11 range is roughly at the treaty's 300 km limit). After China's pledge of adherence, the MTCR guidelines banning exports of missiles with a 300-kilometer range and a 500-kilogram payload were tightened (without consulting China). On August 25, the State Department reluctantly imposed modest sanctions on 10 satellite launches (jeopardizing some \$400 million in business to Hughes and Martin Marietta).

Amid the Yin He and M-11 episodes, Washington also detected that Beijing was preparing its 39th nuclear test, which would break the moratorium on testing observed by all five declared nuclear powers. China conducted the test over U.S. protests on October 5. All of these developments reinforced the conspiratorial views of Chinese hard-liners. U.S. analysts discerned an ascending view in the Chinese military that the United States was an adversary and also viewed China as such. Compounding these tensions were rumors that paramount leader Deng Xiaoping's health was failing, with an uncertain succession struggle already beginning.

In Washington, the dramatic deterioration in U.S.-China relations prompted a new urgency to halt the downward slide. Some in the Administration, including its most senior China hand, Assistant Secretary of Defense for Regional Security Affairs Charles Freeman, and Assistant Secretary of State Lord, sought a fresh start. In the latter part of September, Clinton approved a new strategy removing most of the post-Tiananmen taboos, restoring military-to-military contacts, and authorizing a series of Cabinet-level visits, including the biggest diplomatic prize of all, a presidential meeting.

National Security Adviser Anthony Lake met with Chinese Ambassador Li Daoyu on September 25 to propose a series of top-level meetings along with an invitation to Chinese President Jiang Zemin to meet with Clinton in Seattle. The United States also conveyed a diplomatic message, to be reaffirmed in Clinton's meeting with Jiang in November, reassuring Beijing that U.S. policy continued to be based on the "three communiques" (the 1971 Nixon-Kissinger opening, the 1978 accord on normalization, and the 1982 communique on Taiwan arms sales). It also reaffirmed U.S. support for a unified China. Secretary of State Warren Christopher then met with Chinese Foreign Minister Qian Qichen on September 30 to arrange a series of visits, including those of several Cabinet officials, and to restore military-to-military contacts.

The upshot of these meetings appears to be the makings of a new tacit bargain. In essence, the Chinese are giving Clinton "face" on human rights, taking steps to meet the minimum U.S. demands set forth in the 1993 executive order. The *quid pro quo* is that the United States will provide assurances that it will abide by the three communiques, supporting, as Clinton told Jiang in November, "a strong, stable and prosperous China," and restore the political legitimacy and more "normal" dealings that were shattered by Tiananmen.

The warming trend was abruptly reversed, however, when Beijing jailed leading dissidents on the eve of Secretary Christopher's March 1994 Asia trip. Christopher responded by holding press conferences in Australia and Japan en route to Beijing criticizing the arrests setting the stage for a public relations fiasco in China. These public exchanges epitomized the downward action-reaction cycle that brings out the worst in both the United States and China.

Nonetheless, by the end of March 1994, Beijing had taken substantial strides toward complying with the terms of the executive order. It had released prominent Tibetan political prisoners; begun talks with the International Committee of the Red Cross on the monitoring of Chinese prisoners; reached a new understanding that, if implemented, would allow sufficient inspection of prison factories, part of a U.S.-China agreement on prison-labor exports; agreed to review a list provided by Washington of 235 political prisoners and promised information on 106 more; addressed U.S. concerns on emigration; and agreed to

talks on the jamming of Voice of America (VOA) broadcasts. In addition, Beijing reached an accord on a textiles dispute and during Treasury Secretary Lloyd Bentsen's visit agreed to open its financial markets to U.S. financial institutions, agreed to a visit by Fed Chairman Alan Greenspan to consult with Chinese monetary authorities, and agreed to technical advisory groups from the Securities and Exchange Commission (to help devise and regulate the Chinese securities market) and the U.S. Customs Service. Then, in mid-May China released prominent pro-democracy and religious prisoners, though such steps were tempered by legislation it adopted at the same time expanding police powers of detention.

For its part, while continuing to publicly demand more progress on human rights, the United States quietly reciprocated on a range of issues. In addition to re-establishing a regular military-to-military dialogue, Bentsen restored the Joint Economic Commission, a high-level bilateral forum to oversee trade and financial matters. The Administration reciprocated on technology issues as well: The State Department redefined what sanctions would be implemented on satellite launches, allowing three launches of Chinese satellites to go ahead, and, on the eve of Clinton's meeting with Jiang Zemin in November, the Administration approved a long-delayed sale of a Cray supercomputer to China.

In retrospect, Clinton's November 19, 1993, meeting with Chinese President Jiang Zemin during the Seattle summit of APEC leaders symbolized what may be the beginning of a new stage in Sino-American relations. This new stage is characterized by adequate, if still fragile, bipartisan support for a China policy of expansive engagement in which human rights (barring any future egregious Tiananmen-type developments) is no longer the singular benchmark. But such a course requires assertive presidential leadership.

What Is To Be Done: Policy Recommendations

For all the snarling rhetoric on both sides of the Pacific, China has more or less met the two conditions on emigration and prison labor and is close to what can in good conscience be deemed "overall, significant progress" in most of the five categories of issues. Over the past year there has been a significant shift in congressional opinion. A growing number of members publicly question or disagree with the wisdom of linking MFN status to human rights. House Foreign Affairs Committee Chairman Lee Hamilton (D-Ind.), an influential voice, wrote, "U.S. policy makers should not assume that the policy tools of the recent

past—threatening the termination of MFN—will necessarily be appropriate for China's future."¹⁰

President Clinton should use his decision on MFN status to call a halt to the tit-for-tat cycle of U.S. moralizing and Chinese truculence and to articulate a new U.S. policy toward Beijing. He should declare that the annual MFN ritual has become an impediment to a smart, tough-minded, and relentlessly reciprocal policy toward China, one that uses all the tools of U.S. diplomacy to advance our broader interests in nonproliferation, regional security, commerce, and democratic change.

A new policy should include these steps:

- ▶ severing MFN renewal from human rights conditions;
- ▶ negotiating an arrangement with Congress to repeal the Jackson-Vanik amendment and replace it with an executive order on Jewish emigration from Russia; or, in lieu of that, commissioning a Treasury Department study to determine if China is a non-market economy;
- ▶ creating a U.S.-China bilateral human rights commission composed of official and NGOs and individuals as the centerpiece of a dialogue aimed at keeping the spotlight on human rights;
- ▶ pressing other governments at the July G-7 economic summit to propose that their respective private sectors voluntarily adopt a uniform code of conduct for doing business in China;
- ▶ banning the import of Chinese-made guns, particularly assault rifles, which profit firms run by the PLA;
- ▶ opposing loans to China (the largest borrower from the World Bank) beyond those for basic human needs and environmental protection and seeking to build a G-7 consensus on conditioning future International Development Agency concessional lending on human rights criteria;
- ▶ demonstrating support for Chinese democracy by raising the level of contacts with Taiwan, including from Cabinet-level economic officials,

¹⁰ See the Introduction to *Beyond MFN: Trade with China and American Interests*, Edited by James R. Lilley and Wendell Willkie II., AEI press, 1994.

and exploring with Beijing ways to allow Taiwan's participation in the U.N. system in a "one-China" framework;

- ▶ expanding official and NGO contacts, particularly cultural exchanges, sister-city exchanges and exchanges among students, professional organizations, and media organizations;
- ▶ closely monitoring implementation of Beijing's commitments under the 1984 U.K.-Chinese accord for a 1997 transition to Chinese rule in Hong Kong, benchmarking the Chinese commitment to maintain Hong Kong's social and economic system for 50 years;
- ▶ proposing the creation of a joint U.S.-Chinese commission on constitutionalism and rule of law;
- ▶ promoting third-party mediation between Beijing and the Dalai Lama (along the lines suggested in a recent U.S. Institute for Peace report) to create the political space for more Tibetan self-direction based on the greater Tibetan autonomy provided for in agreements and Chinese laws;¹¹
- ▶ expanding VOA broadcasts of local news in local Asian languages (particularly Mandarin, Cantonese, Tibetan, Burmese, and Vietnamese).

This new approach to democracy and human rights is designed to accentuate, not diminish, their importance. By not conditioning the entire relationship on MFN, we can more easily keep the public spotlight on human rights and democratic reform. Human rights should be part of a new, comprehensive agenda, one of five key "baskets" of concerns that also include economic, strategic, political/security, and cultural/scientific issues. Attaining results in each of these areas is the measure of an engagement strategy. By disaggregating the issues, Chinese transgressions in one area, such as trade or proliferation, can be met with proportionate responses—imposing Section 301 or anti-dumping measures in the case of trade violations, curbing high technology exports in the case of proliferation, or public castigation on human rights transgressions.

Ultimately, the measure of a successful U.S. policy toward China is Beijing's integration into an international system based on liberal political and economic

¹¹ See the report of the U.S. Institute for Peace conference on Sino-Tibetan coexistence, February 1994.

principles. On a broad range of strategic, political, and economic issues, Chinese and U.S. interests do not necessarily diverge, and achieving cooperation in these areas will define where cooperation is possible and where differences pit us in adversarial roles:

- **Economics:** The thrust of U.S. market access talks with China involves transparency-related issues that China must address in order to join the GATT or its successor, the Multilateral Trading Organization (MTO). It must reduce tariffs on a broad range of products that are substantially higher than those imposed by other developing economies and set tariffs on items whose importation are now restricted.

Beijing's recent currency reform is an important step in this direction. In 1993, the U.S. trade deficit with China was some \$23 billion, second only to that with Japan. This deficit is misleading, as roughly one-third of it reflects Hong Kong and Taiwan production in south China (see chart at end of report). The total U.S. trade deficit with "greater China" has remained roughly constant since 1986. Nonetheless, many of China's trade practices are unacceptable and should be assailed through both bilateral and multilateral trade instruments.

One key economic benchmark is intellectual property rights (IPR). While China has signed agreements on IPR, it has not followed through with enforcement. Consequently, China is the world's leading maker of pirated compact discs and tapes. It must commit to establishing a serious enforcement mechanism. Another is follow-through on its commitment to open its financial services markets. The Section 301 instrument should be judiciously applied to China as a lever on these economic issues.

- **Proliferation:** Fitfully but steadily, China has been moving toward international norms. It has joined the Nonproliferation Treaty (NPT), signed the Chemical Weapons Convention, and pledged adherence to the MTCR. It should also support an indefinite extension of the NPT. The United States should accelerate talks with China aimed at a cutoff of fissile material production, as President Clinton has proposed. In its strategic dialogue with Beijing, the United States should seek to bring China into the MTCR as a member (after gaining clarification on the M-11 issue) and also into the Nuclear Suppliers Group. Full cooperation in resolving the North Korea nuclear issue is the most pressing proliferation issue and an important test of the prospects for Sino-American partnership.

- **Strategic Arms:** China has more than 400 nuclear warheads and may be planning to fit its newest ICBM missiles with multiple warheads. This would be a dangerous and destabilizing step that the United States must strenuously oppose. The U.S.-Chinese military-to-military dialogue should involve bottom-line discussions on threat perception, doctrine, the role of nuclear weapons, communications command and control, and arms control. The United States should propose post-START cuts in nuclear arsenals, but only in a multilateral framework of the five permanent members of the U.N. Security Council, offering to make further reductions beyond START if France and China make proportionate cuts. In addition, Chinese support for a comprehensive nuclear test ban by 1996 is an important benchmark issue.

U.S. and Chinese interests in Asia overlap in important areas. China has long accepted that the U.S. forward deployed presence in Japan and Korea is essential to maintaining stability, and its buoyant relationship with Japan is premised on the continuance of the U.S.-Japan security alliance. The emergence of an independent Japanese strategic posture would likely produce instability and strategic competition in Northeast Asia. But there also are some gray areas regarding China's policy toward Asia that require nurturing and creative diplomacy. The key areas are:

- **Korean Peninsula:** Managing the reunification of Korea is the preeminent East Asian security issue for the rest of this decade. Its most urgent aspect is North Korea's apparent quest for nuclear weapons, which is at once a global proliferation and a regional security issue and must be managed as such. China's influence over North Korea is less than many observers believe, particularly since it opened ties to Seoul, in essence over Pyongyang's dead body. But its supply of oil and food to North Korea makes it second only to Japan in economic importance to the Kim regime.

China has no interest in either Korea's attaining nuclear weapons or in war or chaos on its border. The United States should bring China (and Russia) into its circle of consultation and policy coordination with Seoul and Tokyo—the interests of these major powers intersect. Such an initiative could be a prelude to a Northeast Asia political consultation framework to manage a range of sub-regional issues raised by the unification of Korea as well as other issues such as the environment, military transparency, and regional economic development. The North Korean nuclear issue is an important test: China should not veto a move by the international

community to impose sanctions if Pyongyang refuses a reasonable negotiated resolution.

- **Southeast Asia/South China Sea:** The most likely source of conflict in Southeast Asia is the Spratlys dispute. It is the probable venue for China's first major exercise in force projection. How this territorial dispute is resolved is a litmus test of China's role in Asia. Beijing's official position is to defer sovereignty claims and collectively share the resources of the area with all other claimants. Yet it has made provocative moves, such as awarding an oil exploration contract to Crestone, a U.S. company, in an area of the South China Sea within Vietnamese territorial waters. Moreover, Indonesian Foreign Minister Ali Alatas since 1991 has sponsored "official informal" workshops on the South China Sea in which officials of all claimant states attend in unofficial capacities. Yet when Alatas has proposed making the informal talks official negotiations, China has resisted.

The United States should work with Alatas and his ASEAN colleagues to press for a negotiated settlement before China attains air refueling and other force projection capabilities that will allow it to dictate the terms of a settlement. This is a litmus test of the new Asian Regional Forum (ARF), the inaugural session of which will occur this July. In addition, the U.S. strategic dialogue should include a discussion of the China's strategic relations with Burma, where it is building roads and port facilities.

- **South Asia:** China is a vital part of the India-Pakistan equation. Beijing's nuclear behavior will affect that of India and, thus, that of Pakistan. China controls territory bordering on both Indian- and Pakistani-controlled Kashmir. A U.S. mediation effort on Kashmir should include bilateral talks about the issue with China and renewed efforts to initiate five-power talks (among India, Pakistan, China, Russia, and the United States) on these issues.
- **Environment:** China is already producing acid rain that is showing up in South Korea and Japan, and its coal-burning is a major source of global warming. The United States should initiate a high-level bilateral dialogue on global environmental issues, pursue acid rain in the Northeast Asia context and within the Asian Pacific Economic Cooperation (APEC) dialogue to begin exploring cooperative solutions.

Conclusion

The policy approach outlined above calls for engagement, not isolation, patience, not instant gratification; subtlety, not confrontation. It reflects an underlying confidence that an information-age economy cannot long be sustained without a comparably open political system. This confidence grows out of the experience of East Asia over the past quarter-century: one of tremendous economic dynamism and multi-tiered growth. As Japan took off economically, it pulled the four newly industrialized economies (NIEs)—Hong Kong, Taiwan, South Korea and Singapore—along. Japan and the NIEs are now pulling along the NIEs of the 21st century—Indonesia, Malaysia, and Thailand. This economic development pattern of horizontal integration has fostered burgeoning urban middle classes, which has in turn led to political pluralism: Inspired by "people power" in the Philippines, South Korea underwent a democratic transformation in 1988, Taiwan has undergone a similar process, and, in 1992, Thailand saw democracy triumph. In a sense, Tiananmen was an effort by new social forces created by economic reform to assert themselves politically.

Clearly, the driving force shaping China's future is economics. Its Central Committee Plenum last November decided to accelerate economic reforms, including banking and tax reform and the privatization of more than 300,000 state-owned industries, most of which are not profit-making. Roughly half its economy is already privatized. Political reform, which will likely be bound up in the succession to Deng, is likely to ensue. This process, like its path of economic reform will not be smooth or linear: there will be ups and downs, successes and setbacks. The challenge for the United States is to reinforce those forces—entrepreneurial growth and the flowering of civic life—that are revolutionizing Chinese society and building pressures for political change.

U.S. EXPORTS TO HONG KONG & CHINA BY STATE—1993

(VALUE IN \$MILLIONS)

STATE	TOTAL EXPORTS TO HONG KONG & CHINA COMBINED	EXPORTS TO HONG KONG	EXPORTS TO CHINA	TOP EXPORTS
CALIFORNIA	4,560	2,905	1,655	Electronics, transportation equipment, machinery, food, medical instruments, petroleum and oil, agriculture
WASHINGTON	2,548	606	1,942	Transportation equipment, lumber, food, agriculture, fish products, paper, medical instruments, electronics
NEW YORK	1,868	1,209	659	Manufactured products, machinery, transportation equipment, metal products, electronics, agriculture
ILLINOIS	1,024	296	728	Electronics, chemicals, machinery, transportation equipment, food, primary metal products
TEXAS	932	533	399	Electronics, chemicals, machinery, petroleum and oil, medical instruments, transportation equipment
CONNECTICUT	617	175	442	Metal products, agriculture, machinery, electronics, chemicals transportation equipment
NEW JERSEY	574	273	301	Electronics, machinery, chemicals, paper, metal products, transportation equipment
MASSACHUSETTS	490	373	117	Machinery, electronics, machinery, medical instruments, paper, textiles, chemicals
MICHIGAN	390	179	211	Transportation equipment, machinery, chemicals, stone/clay/glass, furniture
PENNSYLVANIA	352	212	140	Machinery, chemicals, electronics, medical instruments, food, textiles
FLORIDA	320	118	202	Chemicals, electronics, transportation equipment, medical instruments, agriculture, machinery
OHIO	316	143	173	Machinery, electronics, chemicals, medical instruments, food, stone/clay/glass
ARIZONA	314	248	66	Electronics, transportation equipment, metal products, machinery, medical instruments
NORTH CAROLINA	312	159	153	Chemicals, machinery, tobacco, agriculture, electronics, textiles, metal products
OTHER	4,023	2,444	1,579	
TOTAL U.S. EXPORTS	18,640	9,873	8,767	

Compiled from U.S. Department of Commerce Statistics.
These statistics represent state-generated exports.

PROGRESSIVE POLICY INSTITUTE

*"One person with a belief is a social power
equal to ninety-nine who have only interests."*

—John Stuart Mill

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PPI advocates growth-oriented economic policies designed to stimulate broad upward mobility and foster a more inclusive, more democratic capitalism; social policies that move beyond maintaining the poor to liberating them from poverty and dependence; and a foreign policy of resolve in defending America's interests and promoting free institutions. The Institute also explores four issues that loom large on the public agenda of the 1990's: crime, health care, educational excellence and environmental safety.

In addition to the original work of its own scholars, the Institute offers a platform to a new generation of progressive thinkers and writers around the country. Through its studies on public enterprise, PPI examines ideas for renewing the public sector by redesigning government along more entrepreneurial and less bureaucratic lines. Believing that effective governance also requires harnessing private energies and resources for public purposes, the Institute promotes creative ways to build America's civic infrastructure and to cultivate the civic virtues necessary for self-government to work.

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AMERICAN INTERNATIONAL GROUP, INC.

70 PINE STREET

NEW YORK, N.Y. 10270

OFFICE OF
MAURICE R. GREENBERG
CHAIRMAN

May 27, 1994

MAY 27 1994

Ms. Alexis M. Herman
Assistant to the President and
Director of Public Liaison
The White House
Washington, D.C. 20500

Dear Alexis:

Attached is my congratulatory note to the President
on his China/MFN decision.

Thank you, as well, for the key role you played in
this positive decision.

Sincerely,



Attachment

AMERICAN INTERNATIONAL GROUP, INC.

70 PINE STREET
NEW YORK, N.Y. 10270

OFFICE OF
MAURICE R. GREENBERG
CHAIRMAN

May 26, 1994

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am dictating this from Beijing, where I have just learned the good news of your decision on MFN for China.

Attached is my statement, just issued in my capacity as chairman of the U.S.-China Business Council.

Congratulations on this important decision.

Sincerely,



Attachment



The United States-China Business Council

1818 N Street, NW, Suite 500, Washington, DC 20036 Telephone: (202) 429-0340 Telefax: (202) 775-2476

FOR IMMEDIATE RELEASE

CONTACT: ROBERT A. KAPP, TEL. 202/429-0340; FAX 202/775-2476

BUSINESS GROUP LAUDS CLINTON CHINA DECISION

WASHINGTON, D.C. May 26 -- The United States-China Business Council, the leading organization of U.S. firms engaged in business with the People's Republic of China, today welcomed President Clinton's decision to renew China's Most Favored Nation (MFN) trade status without conditions.

In a statement on behalf of the organization, M.R. Greenberg, Council Chairman and Chairman of American International Group, Inc., said:

"The US-China Business Council applauds the President's decision to renew MFN for China without conditions, thus maintaining normal trade and economic relations between our two nations. This important decision not only permits the orderly and vigorous development of U.S. trade and investment activity with China, but also encourages the continued positive development of the U.S.-PRC relationship on a wide range of issues.

"Disruption of normal and growing trade relations between our two countries would have done great harm to the overall relationship, and would have made cooperation on many vital regional and global issues much more difficult. The Council is extremely pleased that our two countries can now look forward to continued progress in the many areas where our interest and priorities coincide.

"Both the U.S. and China will benefit from this broadening and deepening contact. While we will surely continue to have differences, the Council believes that the best way to resolve them is through the energetic expansion of our relations in all important fields, including trade and investment. President Clinton's decision moves us toward this goal, and it will have a strong positive effect on U.S. relationships with other countries in the Asia-Pacific Region.

"The Council welcomes as well President Clinton's call for dialogue with the U.S. business community on the issues we both face and looks forward to playing a constructive role in any upcoming discussions."

Throughout the debate over MFN, the US-China Business Council strongly supported unconditional renewal, holding that U.S. trade and investment activities in China contribute to the further opening of the PRC and thus are likely to encourage long-term improvement of human rights conditions in China. The Council's 250 member companies include many of the largest U.S. firms doing business with China, as well as a wide variety of smaller companies with China business interests.

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Amy

MM 27 1991

Alexis Herman:
SAMUEL L. MAURY
EXECUTIVE DIRECTOR

FYI

Sang 5/21

THE BUSINESS ROUNDTABLE
1615 L STREET, N.W.
SUITE 1100
WASHINGTON, D.C. 20036

(202) 678-1260
FACSIMILE (202) 466-3509



**For Immediate Release
May 26, 1994**

**Contact: Johanna Schneider
(202) 872-1260**

**THE BUSINESS ROUNDTABLE PRAISES PRESIDENT CLINTON'S
DECISION ON MFN STATUS FOR CHINA**

The Business Roundtable today praised President Clinton for unconditionally extending China's most-favored-nation status.

Jerry Junkins, Chairman, President and CEO of Texas Instruments and Chairman of the Roundtable's International Trade and Investment Task Force said, "President Clinton's decision to delink trade and human rights showed political courage and leadership. Delinking trade and human rights creates the best environment for achieving two critically important national goals--continued U.S. economic growth and job creation through increased exports, and improved human rights through constructive actions."

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IMPORTANT

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May 18, 1994

Executive Summary

**STARTING OVER:
FROM MFN TO A CHINA POLICY FOR THE FUTURE**

by Robert A. Manning

One of the major uncertainties facing the Asia-Pacific, as well as the entire international system, is the future role of China, a nation in the throes of generational political succession and difficult economic transition. The character of Sino-American relations will greatly influence whether China becomes a modern, liberalized nation at peace with itself and its neighbors, adhering to international norms or whether it plays largely by its own rules.

President Clinton rightly criticized the Bush Administration's status quo mindset in regard to democracy in China. He also argued that, with the collapse of the Soviet Union, the time had come to discard the "China card" and define a new relationship with China for the post Cold War era. His Administration has begun to move toward a new policy of engagement which holds the promise of creating a stable basis for U.S.-China relations. Yet it also has jeopardized that prospect by once again continuing the annual ritual of deciding whether to request a renewal of most-favored-nation (MFN) status for China.

MFN is simply too blunt a diplomatic instrument to define U.S. relations with China, a nation with 1.2 billion people—22 percent of humanity—a permanent seat on the U.N. Security Council, by some measures the world's third largest economy, and a nuclear and missile arsenal. Without relenting in our criticism of China's mistreatment of its own people, we must find ways to engage China across a broader spectrum of interests and concerns. Moreover, as a great power emerging from more than a century of foreign invasion and occupation, China is more likely to respond positively to dialogue and consultation than to ultimatums.

Human rights and political reform are part of a much larger U.S.-China agenda which also includes strategic, economic and cultural/scientific issues. The thread that links all these issues, the cardinal U.S. policy goal, must be to facilitate China's integration into the emerging international economic and political system and to foster its difficult but inescapable economic and political transformation. These objectives are not all equal: Strategic and economic issues are top priorities and should dictate how trade-offs occur. A one-dimensional policy that holds the entire relationship hostage to the pursuit of a

single objective is counter-productive. Unilateral pressure on human rights, particularly sanctions, is rarely effective. One lesson China policy has taught us since the crushing of student demonstrations in Tiananmen Square in 1989, is that human rights policy tends to be more effective when it reflects a multilateral consensus.

While America has a moral obligation to condemn flagrant human rights violations in China, we have a strategic interest in China's peaceful evolution toward political pluralism and representative government. The spread of free institutions in China will constrain the regime's aggressive conduct at home and abroad and enhance the prospect that China will abide by international norms for trade, nonproliferation, the environment and other issues. Indeed, the best reason to guarantee MFN status for China is that it buttresses economic and social forces that are creating demand in China for political change.

This paper proposes the following alternatives to revoking China's MFN status:

- creating a U.S.-China bilateral human rights commission composed of official and nongovernment organizations (NGO) and individuals as the centerpiece of a dialogue aimed at keeping the spotlight on human rights;
- pressing other governments at the July G-7 economic summit to propose that their respective private sectors adopt a uniform code of conduct for doing business in China;
- banning the import of Chinese-made guns, particularly assault rifles, which profit firms run by the People's Liberation Army (PLA);
- expanding official and non-government organization contacts,
- implementing Beijing's commitments under the 1984 U.K.-China accord for a 1997 transition to Chinese rule in Hong Kong, benchmarking the Chinese commitment to maintain Hong Kong's social and economic system for 50 years;
- creating a joint U.S.-China commission for a dialogue on constitutionalism and rule of law.

The challenge for the United States is to craft a new policy toward China that combines clear and unchanging strategic aims with a higher degree of tactical flexibility. Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear non-proliferation, regional security, market-oriented economic ties and democratic change within China itself. President Clinton has a rare opportunity to re-establish a bipartisan consensus for a sensible post-Cold War China policy by unlinking MFN renewal from particular human rights issues and by articulating a different approach to human rights and political change which reflects a considered calculus of national priorities.

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POLICY REPORT
May 1994
No. 20

**STARTING OVER: FROM MFN
TO A CHINA POLICY FOR
THE FUTURE**

by

Robert A. Manning

About the Author

ROBERT A. MANNING is currently Senior Fellow at the Progressive Policy Institute and Research Associate at the Sigur for East Asian Studies of George Washington University. He has written widely on international affairs, with articles appearing in *Foreign Affairs*, *Foreign Policy*, *The New York Times*, *The Wall Street Journal*, *The Washington Post*, *Los Angeles Times*, *The New Republic*, *International Herald Tribune*, *World Policy Journal*, *Asahi Shibun*, *Chuo Koron*, and other publications.

Until March 1993, Mr. Manning was Advisor for Policy to the Assistant Secretary of State for East Asian and Pacific Affairs. He has also been an advisor to the Office of the Secretary of Defense. From 1985 to 1987, he was Diplomatic Correspondent for *U.S. News and World Report*; and prior to that, he was a Washington correspondent for the *Far Eastern Economic REVIEW*.

Born in Bronx, New York, Mr. Manning received his bachelor's degree in history from California State University. He is the author of BACK TO THE FUTURE: Towards a Post-Nuclear Ethic -- The New Logic of Nonproliferation (Progressive Foundation, 1994).

Acknowledgements

The author would like to express thanks to Will Marshall and Steven Nider of the Progressive Policy Institute for their support and advice.

STARTING OVER: FROM MFN TO A CHINA POLICY FOR THE FUTURE

by Robert A. Manning

Introduction

Crafting a constructive relationship with China epitomizes the core challenges to U.S. foreign policy: how to balance American interests and values, how to match means and ends, how to mesh aspirations and capabilities. Similarly, the current debate over most favored nation (MFN) status for China raises a much larger question: What is the rationale of post-Cold War U.S. relations with China? Is there a strategic basis for Sino-American relations—as partner or adversary? Is cooperation on problems such as North Korea paramount, or should human rights issues continue to be the singular measure of U.S. policy toward China? The decision President Clinton will make by June 3 on extending MFN status to China will shape the answers to these key questions.

F. Scott Fitzgerald once said the mark of a superior intellect is the ability to hold two opposing ideas in one's mind and still be able to function. China presents Americans with such a challenge. On the one hand, China is a political anachronism led by a band of octogenarian autocrats stubbornly defying the tide of freedom that has swept the rest of the communist world. On the other hand, there is a new, entrepreneurial China, a nascent market economy that is inexorably undermining the props of authoritarian rule.

Dealing with this ambiguous reality demands a more supple and sophisticated strategy than America has managed thus far. The challenge for the United States is to craft a new policy toward China that combines clear and unchanging strategic aims with a higher degree of tactical flexibility.

The principal obstacle to a full-fledged, equal partnership between the United States and China—and to China's quest for the respect due a great nation—remains the communist monopoly on political power. At the same time, overlapping interests—nonproliferation, regional stability, and market-oriented growth—offer a prospective basis for a more productive U.S.-China relationship than the recent cycle of recriminations.

Our challenge is to work with Beijing where our interests coincide, as we did with the former Soviet Union. At the same time we must be clear about differences and work to bridge them when possible, yet pursue policies that, however modestly, nourish the emerging social forces that will hasten a political pluralism parallel to the change unfolding in the economic realm. Without

question, expanding freedom in China is a central goal of U.S. policy. The debate is really about the best way to attain that objective. China's opening to the West and its market-oriented reform is the most powerful force for change in its modern history, in part because it is internally generated, not imposed from abroad.

This paper's premise is that linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear nonproliferation, regional security, market-oriented economic ties, and democratic change within China itself. President Clinton has a rare opportunity to re-establish a bipartisan consensus for a sensible post-Cold War China policy by unlinking MFN renewal from particular human rights issues (without imposing lesser sanctions) and by articulating a different approach to human rights and political change that reflects a considered calculus of national priorities.

A New Moment

The crushing of democratic hopes in Tiananmen Square in 1989 shattered the bipartisan consensus for U.S. relations with China painstakingly built over two decades by five administrations, Democratic and Republican. Five years after Tiananmen, the memory of the massacre of unarmed demonstrators remains etched in the American psyche, though it increasingly coexists with images of a more complex China. Post-Tiananmen disillusionment with China fits a 150-year pattern of wild swings in the U.S. view of China. Americans embraced it when we felt it was becoming like us and bitterly disappointed when events such as Tiananmen suggest it is not. *It is time to declare a statute of limitations on Tiananmen.*

Even had Tiananmen never happened, the end of the Cold War would have mandated a reassessment of U.S. policy toward China. One of the major uncertainties facing the Asia-Pacific—indeed, the entire international system—is the future role of China, a nation in the throes of generational political succession and a difficult economic transition. The character of Sino-American relations will greatly influence whether China plays the role of a modernizing, liberalizing nation at peace with itself and its neighbors, acting as a responsible global power that adheres to international norms, or whether it plays largely by its own rules.

President Clinton rightly criticized his predecessor's status quo mind-set in regard to democracy in China. He also argued that, with the collapse of the Soviet Union, the time had come to discard the "China card" and define a new relationship with China for the post-Cold War era. His Administration has begun to move toward a new policy of engagement that holds the promise of creating a stable basis for U.S.-China relations. Yet it also has jeopardized that prospect by renewing the annual MFN ritual.

MFN is simply too blunt an instrument to define U.S. relations with China, a nation with 1.2 billion people—22 percent of humanity—a permanent seat on the U.N. Security Council, by some measures the world's third largest economy, and a nuclear and missile arsenal. Without relenting in our criticism of China's mistreatment of its own people, we must find ways to engage China across a broader spectrum of interests and concerns. Moreover, as a great power emerging from more than a century of foreign invasion and occupation, China is more likely to respond positively to dialogue and consultation than to ultimatums.

Human rights and political reform are part of a much larger U.S.-China agenda that also includes strategic, economic, and cultural/scientific issues. The thread that links all these issues, the cardinal U.S. policy goal, must be to facilitate China's integration into the emerging international economic and political system and to help foster its difficult but inescapable economic and political transformation. These objectives are not all equal: Strategic and economic issues are top priorities and should dictate how trade-offs occur. A one-dimensional policy that holds the entire relationship hostage to a single objective is counterproductive. Unilateral pressure on human rights, particularly sanctions, is rarely effective. One lesson of China policy since Tiananmen is that human rights policy tends to be more effective when it reflects a multilateral consensus.

While America has a moral obligation to condemn flagrant human rights violations in China, it has a strategic interest in China's evolution toward political pluralism and representative government. The spread of free institutions in China will constrain the regime's aggressive conduct at home and abroad and enhance the prospect that China will abide by international norms on trade, nonproliferation, the environment, and other issues. Indeed, the best reason to guarantee MFN status for China is that it buttresses economic and social forces that are creating demand there for political change.

President Clinton should use his decision on MFN to unlink it from human rights conditionality and articulate a new U.S. policy toward China based on advancing our broader interests in nonproliferation, regional security, commerce, and democratic change. Instead of lecturing Beijing, which simply evokes petulant noncooperation, the United States should engage more directly with the people of China—especially a new generation with rising expectations of prosperity and freedom. Instead of trying to change China from the outside in, we should explore new ways to bolster Chinese reformers working to transform their society from the inside out. Such alternatives include:

- ▶ creating a U.S.-China bilateral human rights commission composed of official and nongovernment organizations (NGO) and individuals as the centerpiece of a dialogue aimed at keeping the spotlight on human rights;

- ▶ pressing other governments at the July G-7 economic summit to propose that their respective private sectors voluntarily adopt a uniform code of conduct for doing business in China;
- ▶ banning the import of Chinese-made guns, particularly assault rifles, which profit firms run by the People's Liberation Army (PLA);
- ▶ expanding official and NGO contacts;
- ▶ closely monitoring the implementation of Beijing's commitments under the 1984 U.K.-China accord for a 1997 transition to Chinese rule in Hong Kong, benchmarking the Chinese commitment to maintain Hong Kong's social and economic system for 50 years;
- ▶ creating a joint U.S.-China commission for a dialogue on constitutionalism and rule of law.

Why MFN?

The problem with MFN status begins with the unfortunate, misleading semantics that distort the debate. MFN status is not a concession or foreign aid. Granting MFN status to China does not mean that China is our most favorite nation, that we are granting the country a special privilege or that we are doing China a favor. Neither does it mean that we give "favorable tariff rates to Chinese exports," as a Senate Democratic Policy Committee report argued.¹ Rather, MFN status means that China and the United States grant each other the same—no less favorable—tariff treatment they provide to other respective trading partners granted MFN status. MFN is merely the normal basis for international trade, established under the General Agreement on Tariffs and Trade (GATT). The United States has reciprocal MFN arrangements with some 180 other countries—including Iran, Iraq, Libya, Burma, and even South Africa under apartheid.

Indeed, more than 100 countries *do* receive more favorable tariff treatment through agreements such as the Generalized System of Preferences, the North American Free Trade Agreement, and the Caribbean Basin Initiative, to cite a few. Withdrawing MFN is an extraordinary act that would impose higher tariff rates likely to destroy a burgeoning \$40 billion economic relationship with one of the world's largest and fastest-growing economies (and U.S. export markets).

¹ Democratic Policy Committee, *Special Report: China MFN Status*, U.S. Senate, May 3, 1994.

MFN status became the means to express American moral outrage and concern for human rights largely by historical accident: The 1974 Jackson-Vanik amendment to a trade bill offered a convenient instrument. The Jackson-Vanik legislation was designed to use then-President Nixon's detente policy (he wanted to grant the Soviet Union MFN status) as a vehicle to force Moscow to permit Jewish emigration.² It is important to note that at the time U.S.-Soviet trade was all but nonexistent. Jackson-Vanik required that MFN status for non-market economies, a category that included China, be renewed annually based on emigration criteria. However, emigration has not been a serious concern with regard to China. And with some 50 percent of the country's economy privatized, a case can be made for removing China from the category of non-market economies and hence from Jackson-Vanik requirements.

Since Tiananmen, Jackson-Vanik's MFN provisions have become a vehicle for congressional reprisals on China. What started as an expression of legitimate outrage at communist repression—and impatience with the Bush Administration's business-as-usual attitude—became a static and overly simplistic view that China should be punished with every means at hand. Amid much feckless moralizing, China-bashing became the vogue, with the added incentive of scoring partisan points against President Bush. In Christmas tree-like fashion, Congress added conditions to MFN renewal as though it were stringing lights on a Christmas tree—including conditions on trade, human rights, weapons proliferation, and other concerns that had been vetoed during the Bush years of divided government.

Whatever their merit, these "in-your-face" actions created a confrontational atmosphere and stoked paranoia among Chinese leaders, particularly the politically influential military. *These measures, some concrete, some symbolic, ignored important economic and social realities in China. And by provoking Beijing on its most sensitive issue—sovereignty (particularly in resolutions regarding Taiwan and Tibet)—they poisoned the diplomatic atmosphere, confounding our ability to make progress on precisely those issues of congressional concern.* On its own terms, MFN conditionality has not worked. On the contrary, it has put the entire relationship at risk while failing to substantially alter Beijing's political or legal system.

The New Realities of China

Sino-American realities are far more complex and ambiguous than the lingering images of tanks facing down demonstrators. While the U.S. media have

² See Paula Stern, *Water's Edge: Domestic Politics and the Making of U.S. Foreign Policy*, Greenwood Press, 1979, for a detailed history of the Jackson-Vanik legislation.

focused on continued repression, since Tiananmen the Chinese economy has been growing at roughly 10 percent a year as its market-oriented reforms have continued to advance. Since 1989, U.S. trade with China has roughly *doubled*, to \$40 billion in 1993, with China's total foreign trade reaching \$200 billion. The armies of Avon ladies in Guangdong province are as much a part of China today as is the PLA. Country and western discos in Shanghai, underground films, and the PLA's selling and installing satellite dishes that bring MTV and CNN to China are as much a reality as state censorship.

To be sure, China's entrepreneurial boom by itself does not guarantee a peaceful evolution toward democracy. But as Chinese economic reform has progressed, it has substantially improved the quality of life of ordinary Chinese. The 1994 State Department human rights report, while sharply critical of Beijing's overall human rights record, pointed to positive trends:

A decade of rapid economic growth, spurred by market incentives and foreign investment, has reduced party and government control over the economy and permitted ever larger numbers of Chinese to have more control over their lives and livelihood. Despite significant income disparities between coastal regions and the interior, there is now a growing middle class in the cities and rural areas as well as a decline in the number of Chinese at the subsistence level.

Fifteen years of market-oriented reform has also altered the relationship of individuals to the state and reduced Beijing's control over the regions. Growing privatization has empowered individuals and reduced their reliance on the state. Provinces act with increasing autonomy. Already the state accounts for barely 50 percent of GNP, and, if current trends continue, it may account for about one-third by the end of this decade.³ The role of the *dan-wei*, or work unit, the basic mechanism of communist control over individuals—dictating where to live, work, go to school, and more—has diminished greatly with economic liberalization.

The emergence of a social strata of entrepreneurs, intellectuals, technocrats, and professionals, produced by dynamic economic growth, led to democratic transformations in South Korea, Taiwan, and Thailand over the past decade. While it is not inevitable, it is likely that similar social forces will produce similar political change in China. *A U.S. strategy of engagement should be aimed at nurturing and cultivating these elements in China that will be the harbingers of democratic reform.*

Former Chinese activist Pei Minxin, now a professor at Princeton, has argued that economic and civic rights must be factored into the equation in measuring human rights progress. Pei points to the great expansion since 1978 of

³ See *The Economist*, "A Survey of China," November 28, 1992.

internal travel, choice of residence, autonomous civic organizations, and, perhaps most important, access to information. There are now almost seven times as many newspapers and magazines in China (7,361) as there were in 1978; where one in 300 people had a TV in 1978, now it is one in five.⁴ Some 100 million Chinese have access to satellite dishes bringing CNN, MTV, and more.

Yet China's opening to the world and its burgeoning civil society seem to have been missing from the Administration's calculus concerning MFN renewal. Indeed, the executive order President Clinton signed in May 1993 is based on a narrow set of considerations, cosmetic in regard to China's political and judicial system, that requires China to be a bit more accountable on certain human rights practices. It requires China to:

- ▶ comply with Jackson-Vanik emigration criteria and with the 1992 bilateral accord on prison labor exports;
- ▶ make "*overall, significant progress*" with regard to 1) adherence to the universal declaration of human rights, 2) the release of and acceptable accounting for Chinese citizens imprisoned or detained for nonviolent expression of political or religious beliefs, including in the Democracy Wall and Tiananmen movements, 3) the humane treatment of prisoners and access to prisons by international humanitarian organizations, 4) the protection of Tibet's religious and cultural heritage, and 5) granting permission for international radio and television broadcasts.

What If...

An assessment of the consequences of denying MFN status to China suggests why it is not only the wrong instrument to promote human rights but is, in effect, a gun pointed as much at our own head as China's. Denial of MFN status would:

- ▶ **Undermine Sino-American cooperation on vital security issues**, such as halting North Korea's quest for nuclear weapons, forging a nuclear test-ban treaty, and otherwise strengthening international nonproliferation norms and institutions, and military-to-military dialogue.

⁴ See Pei Minxin, "Here's Evidence of a Kinder, Gentler China," *Asian Wall Street Journal*, March 30, 1994.

- ▶ **Severely damage a \$40 billion U.S.-China trade relationship** and jeopardize some \$9 billion in U.S. exports, \$10 billion in committed U.S. investment in China, and 200,000 jobs related to exports to China, as Beijing would retaliate against U.S. goods. U.S. tariffs on the \$31.5 billion in Chinese goods we import would rise by an average of 50 percent, pricing many of the cheap consumer goods Americans rely on out of the U.S. market. A recent World Bank study cites an estimate that denying MFN status would cost U.S. consumers as much as \$14 billion annually.⁵
- ▶ **Endanger U.S. competitiveness** in a rapidly growing economy. Boeing already has orders for 64 planes worth \$4 billion and estimates that China will need 800 airplanes worth \$40 billion in the next 15 years. According to projections, China will need \$90 billion in power-generation equipment during the rest of this decade, \$29 billion in telecommunications equipment over the next five years, \$18.2 billion in oil and gas equipment in the next three years, and \$5 billion in computers over the next eight years.⁶ In a trade environment poisoned by loss of MFN status, will China choose Boeing over Airbus, Chrysler over Mercedes?
- ▶ **Adversely affect Hong Kong and Taiwan.** The economies of Hong Kong and Taiwan are increasingly integrated into a single, greater Chinese economy. Hong Kong is the entrepôt for 64 percent of Chinese exports to the United States. The Hong Kong government estimates that denying China MFN status would cost it \$24 billion in trade, \$3.4 billion in income, and 75,000 jobs. Taiwan has more than \$20 billion in annual trade with the mainland and some \$20 billion invested in it.
- ▶ **Isolate the United States.** No other G-7 nation or any Asian nation is considering denying China MFN. Doing so would isolate the United States and benefit economic competitors. It also would contribute to what Assistant Secretary of State Winston Lord called a "malaise" plaguing the U.S. posture in Asia, with an image as "an international nanny, if not bully."⁷

⁵ See "China: Foreign Trade Reform," The World Bank, February, 1994, pps. xxix.

⁶ See "Beijing and the Business of Human Rights," *Financial Times*, March 16, 1994, p. 6.

⁷ See "U.S. Aide Sees Relations With Asia in Peril," *The Washington Post*, May 5, 1994, p. A38.

- But most of all, it would **set back human rights** and destabilize economic reform in China. Denying MFN status would disrupt the engine of economic reform in southern China, create massive unemployment and instability, reinforce hard-liners by allowing them to galvanize Chinese nationalism during the post-Deng succession struggle, and spend all U.S. leverage.

Engagement For What?

It was precisely the search for a more coherent way to pursue our interests and our values that led President Clinton last September to adopt a new strategy of engagement. This development reflected growing sentiment within the Administration that China's economic boom is diffusing power from the communist center; that the trade and investment prospects offered by China's persistent 10 percent annual growth and accelerating economic reform are too beguiling to miss; and that concern over nuclear proliferation, especially in North Korea, trumps other concerns that do not directly threaten U.S. security. The Administration's emphasis on geoeconomics has led it to focus on Asia in general and China in particular, as evidenced in last November's meeting of the Asian Pacific Economic Cooperation (APEC) forum. But it also has made the Administration increasingly aware of an emerging new reality looming over the entire international system: the prospect—unprecedented in modern history—of an economically dynamic, militarily powerful, politically unified, and globally engaged China approaching the 21st century.

During the four decades preceding Tiananmen there were clear strategic rationales for U.S.-China relations. From 1949 to the Nixon-Kissinger opening in 1971, Cold War anti-communism propelled the confrontational stance toward Maoism; from 1971 until 1989 the "strategic triangle" of the United States, the Soviet Union, and China provided the basis for U.S.-China ties as well as for much of U.S. security policy. But in Tiananmen's aftermath, the U.S.-Chinese relationship has been, as one frustrated senior U.S. official put it, "the sum of its irritants."

A different approach can foster a new equilibrium in Sino-American relations, positioning the United States for the inevitable political turmoil that will flow from both Deng Xiaoping's passing and the likely bursting of China's bubble economy. Perhaps most important, a new approach can test the possibilities and limits of partnership with Beijing. *The Clinton Administration's new challenge will be to set operational priorities, disaggregate the various baskets of issues, and establish benchmarks for Chinese behavior; in essence, to develop an index of leading indicators for gauging Chinese international behavior.*

But what is the strategic rationale for the U.S.-China relationship? Assistant Secretary of State Lord articulated the basis of Sino-American relations: "We don't want to contain China or isolate it. We want to see China integrated into the world political and economic structure."⁸ This view is based on the recognition that China will be one of three or four major poles in the post-Cold War international system.

China's foreign trade is growing exponentially, heightening the urgency of a more transparent trade and financial system in accord with international norms. Similarly, China is one of the principal independent variables on every strategic issue from post-START arms control to a comprehensive test-ban treaty, on missile proliferation, on regional security issues from Southwest Asia to East Asia, and on global environmental issues.

The goal of integrating China is also based on the assumption that China's paramount goal is economic modernization. With a rapidly growing global trade relationship (some \$200 billion annually) and burgeoning foreign investment, China's economic future is clearly linked to the world system. What's more, no political faction in Beijing disputes the basic direction set by Deng; the policy debates are over the pace and scope of economic reforms. The goal also is based on the implicit assumption that China is not an ideologically driven expansionist power as was the former Soviet Union. Rather, the assumption is that China seeks secure borders and respect as a dominant power in East Asia whose interests should be taken into account on regional political affairs and as a major global power to be consulted on international issues.

Chinese foreign policy has sought to create a stable regional environment conducive to its internal modernization. Since Tiananmen, Chinese diplomacy has been enormously successful: Beijing has normalized relations with Russia, forged unprecedented ties with India, bolstered both economic and political relations with Japan, broken with North Korea, and opened full diplomatic relations with South Korea. In Southeast Asia, China has normalized ties to Vietnam, won a Vietnamese withdrawal from Cambodia, and achieved a peace accord in Cambodia placing longtime Chinese friend Prince Sihanouk in power. In addition, China has normalized ties with Singapore and Indonesia and generally enhanced its ties to the members of the Association of Southeast Asian Nations (ASEAN).

It is precisely because Beijing enjoys the most serene security environment it has known this century that China's military buildup has raised serious concerns. China's military modernization, including plans for a blue-water navy and a larger nuclear arsenal, raises questions about its intentions. Since 1988, it

⁸ See *The Far Eastern Economic Review*, November 14, 1993, p. 22.

has increased its defense budget by more than 10 percent annually, even as the United States and Russia have sharply curtailed theirs. Over the past two years, China has purchased some \$2 billion in military hardware and technology from Russia and employed up to several hundred Russian scientists and technicians, and last year the country signed a military cooperation agreement with Moscow. Beijing's "Russian connection" likely will enable it to leapfrog a generation of military technology, in particular in guidance systems, solid-fuel missile capabilities, submarine technology, and combat aircraft.

On the other hand, even accepting the high end of U.S. estimates, China's total military spending is still only \$22 billion, slightly more than half the size of Japan's. China also lacks any significant ability to project force, though it is seeking it with breakneck speed.

At the same time, Beijing has outstanding territorial disputes with India (though there has been major progress toward resolving border issues), Vietnam, Malaysia, the Philippines, and Brunei. It also has a dormant territorial dispute with Japan, and it has refused to rule out the use of force against Taiwan. These circumstances fuel suspicions about Chinese intentions, which are heightened by its non-democratic character.

The most likely near-term venue for conflict is the purportedly oil-rich Spratly Islands in the South China Sea, where China and Vietnam have had minor clashes as recently as 1988. The Chinese raised hackles across East Asia with passage of a February 1992 law declaring Chinese sovereignty over the entire South China Sea (and the Senkakus to the north), including the right of passage in contravention to the Law of the Seas. This action reflects a 19th century geopolitical mindset that is out of sync with the information age, in which real estate is diminishing as a barometer of national power. But for China, emerging after more than a century of national humiliation punctuated by foreign invasion and occupation, issues of national pride have a special import. Indeed, nationalism is likely to be an important tool for establishing legitimacy and sustaining national unity for a post-Deng regime.

On the strategic front, China's 90-kiloton nuclear test in October 1993 appears to be part of a modernization program for Beijing's nuclear triad. U.S. defense experts saw the October test as part of a move toward more mobile, more accurate solid-fuel missiles, in particular a new ICBM resembling the SS-25, Russia's top-of-the-line strategic missile, with a range of some 8,000 miles. Beijing is also believed to have tactical nuclear weapons.

Evolution of Clinton's Policy

This lengthy substantive agenda underscores why holding the entire Sino-American relationship hostage to MFN status does not work. Doing so launched a political roller coaster ride that brought U.S.-Chinese relations to the brink of confrontation in 1993. The past year of conflicting objectives, inept interagency coordination, and poor tactical execution produced a negative cycle of action-reaction, creating a political atmosphere that made it more difficult for China to meet U.S. conditions. On the other side, irresponsible actions by China, often accompanied by a brazen disregard for international trade, human rights, and nonproliferation norms, made a bad situation worse.

Bill Clinton entered office against a backdrop of rhetoric reflecting competing goals. In a campaign speech in Milwaukee in October 1992, he said:

...the tremors of change continue to shake China. We do not want China to fall apart, to descend into chaos or go back into isolation. But rather, we want to use our relationship and influence to work with the Chinese for a peaceful transition to democracy and the spread of free markets.

In March 1993, with the annual MFN debate looming, President Clinton sent a letter to Beijing listing 14 issues of concern in three broad categories: human rights, proliferation, and trade. He suggested that if China took steps to satisfy these concerns, it would facilitate the MFN debate. This fanned Chinese fears, and, while the details of these exchanges have not been made public, Beijing, unamused, sent Clinton its own list of desired actions for U.S. policy.⁹

The 1993 MFN debate ended in a deal: Congress agreed to renew Beijing's trade status in return for Clinton's issuing an executive order outlining a set of conditions on human rights. Brokered with the support of Senate Majority Leader George Mitchell (D-Maine) and Rep. Nancy Pelosi (D-Calif.), who had led the charge against Bush, the deal also precluded President Clinton from waiving the human rights conditions on national security or other grounds. With a Democrat in the White House, the China issue seemed to be losing its political edge.

Yet no sooner had Clinton signed the executive order, which promised to stabilize China policy for at least a year, than things began to unravel. In July and August, a series of controversies over human rights, trade, and proliferation erupted in rapid succession. Beijing refused to allow a previously detained labor activist, Han Dongfang, to return to China and also jailed several dissidents. Disputes loomed over textiles, illegal rhinoceros horn imports, and lack of progress

⁹ See Don Oberdorfer, "Replaying the China Card," *The Washington Post*, November 7, 1993, p. C3.

in market access. U.S. opposition—on human rights grounds—to Beijing's bid to host the 2000 Olympics, a national cause in which China had invested considerable public face, outraged the Chinese leadership.

Perhaps most explosive, however, was a series of strategic issues pertaining to Chinese adherence to international nonproliferation norms. In July, U.S. intelligence began tracking a Chinese freighter, the Yin He, believed to be carrying a shipment of ingredients for chemical weapons to Iran. (China has signed the Chemical Weapons Convention, though it does not go into effect until 1995.) By early August U.S. admonitions to China and demands to inspect the ship's cargo had emerged as a very public confrontation, with China humiliated and affronted by the heavy-handed U.S. tactics. The affair ended with an equally public U.S. embarrassment when Beijing permitted an inspection of the ship docked at the Saudi port of Darhein and no proscribed chemicals were found.

At the same time came a rancorous dispute over Chinese export of M-11 missile technology to Pakistan. China had pledged to adhere to the Missile Technology Control Regime (MTCR) and had specifically made a commitment to Secretary of State James Baker that it would not sell M-11s to Pakistan. Yet by early 1993, U.S. intelligence agencies had acquired hard evidence of M-11 technology transfers to Pakistan. In July, Undersecretary of State Lynn Davis went to Beijing in an unsuccessful last-ditch effort to avoid imposing sanctions (the United States is the only country that legislates or has imposed sanctions for MTCR control-list violations).

Davis' visit was particularly acrimonious. China, angered by U.S. sales of F-16 jets to Taiwan, refused to even discuss the issue. Beijing claimed adherence to MTCR (the M-11 range is roughly at the treaty's 300 km limit). After China's pledge of adherence, the MTCR guidelines banning exports of missiles with a 300-kilometer range and a 500-kilogram payload were tightened (without consulting China). On August 25, the State Department reluctantly imposed modest sanctions on 10 satellite launches (jeopardizing some \$400 million in business to Hughes and Martin Marietta).

Amid the Yin He and M-11 episodes, Washington also detected that Beijing was preparing its 39th nuclear test, which would break the moratorium on testing observed by all five declared nuclear powers. China conducted the test over U.S. protests on October 5. All of these developments reinforced the conspiratorial views of Chinese hard-liners. U.S. analysts discerned an ascending view in the Chinese military that the United States was an adversary and also viewed China as such. Compounding these tensions were rumors that paramount leader Deng Xiaoping's health was failing, with an uncertain succession struggle already beginning.

In Washington, the dramatic deterioration in U.S.-China relations prompted a new urgency to halt the downward slide. Some in the Administration, including its most senior China hand, Assistant Secretary of Defense for Regional Security Affairs Charles Freeman, and Assistant Secretary of State Lord, sought a fresh start. In the latter part of September, Clinton approved a new strategy removing most of the post-Tiananmen taboos, restoring military-to-military contacts, and authorizing a series of Cabinet-level visits, including the biggest diplomatic prize of all, a presidential meeting.

National Security Adviser Anthony Lake met with Chinese Ambassador Li Daoyu on September 25 to propose a series of top-level meetings along with an invitation to Chinese President Jiang Zemin to meet with Clinton in Seattle. The United States also conveyed a diplomatic message, to be reaffirmed in Clinton's meeting with Jiang in November, reassuring Beijing that U.S. policy continued to be based on the "three communiques" (the 1971 Nixon-Kissinger opening, the 1978 accord on normalization, and the 1982 communique on Taiwan arms sales). It also reaffirmed U.S. support for a unified China. Secretary of State Warren Christopher then met with Chinese Foreign Minister Qian Qichen on September 30 to arrange a series of visits, including those of several Cabinet officials, and to restore military-to-military contacts.

The upshot of these meetings appears to be the makings of a new tacit bargain. In essence, the Chinese are giving Clinton "face" on human rights, taking steps to meet the minimum U.S. demands set forth in the 1993 executive order. The *quid pro quo* is that the United States will provide assurances that it will abide by the three communiques, supporting, as Clinton told Jiang in November, "a strong, stable and prosperous China," and restore the political legitimacy and more "normal" dealings that were shattered by Tiananmen.

The warming trend was abruptly reversed, however, when Beijing jailed leading dissidents on the eve of Secretary Christopher's March 1994 Asia trip. Christopher responded by holding press conferences in Australia and Japan en route to Beijing criticizing the arrests setting the stage for a public relations fiasco in China. These public exchanges epitomized the downward action-reaction cycle that brings out the worst in both the United States and China.

Nonetheless, by the end of March 1994, Beijing had taken substantial strides toward complying with the terms of the executive order. It had released prominent Tibetan political prisoners; begun talks with the International Committee of the Red Cross on the monitoring of Chinese prisoners; reached a new understanding that, if implemented, would allow sufficient inspection of prison factories, part of a U.S.-China agreement on prison-labor exports; agreed to review a list provided by Washington of 235 political prisoners and promised information on 106 more; addressed U.S. concerns on emigration; and agreed to

talks on the jamming of Voice of America (VOA) broadcasts. In addition, Beijing reached an accord on a textiles dispute and during Treasury Secretary Lloyd Bentsen's visit agreed to open its financial markets to U.S. financial institutions, agreed to a visit by Fed Chairman Alan Greenspan to consult with Chinese monetary authorities, and agreed to technical advisory groups from the Securities and Exchange Commission (to help devise and regulate the Chinese securities market) and the U.S. Customs Service. Then, in mid-May China released prominent pro-democracy and religious prisoners, though such steps were tempered by legislation it adopted at the same time expanding police powers of detention.

For its part, while continuing to publicly demand more progress on human rights, the United States quietly reciprocated on a range of issues. In addition to re-establishing a regular military-to-military dialogue, Bentsen restored the Joint Economic Commission, a high-level bilateral forum to oversee trade and financial matters. The Administration reciprocated on technology issues as well: The State Department redefined what sanctions would be implemented on satellite launches, allowing three launches of Chinese satellites to go ahead, and, on the eve of Clinton's meeting with Jiang Zemin in November, the Administration approved a long-delayed sale of a Cray supercomputer to China.

In retrospect, Clinton's November 19, 1993, meeting with Chinese President Jiang Zemin during the Seattle summit of APEC leaders symbolized what may be the beginning of a new stage in Sino-American relations. This new stage is characterized by adequate, if still fragile, bipartisan support for a China policy of expansive engagement in which human rights (barring any future egregious Tiananmen-type developments) is no longer the singular benchmark. But such a course requires assertive presidential leadership.

What Is To Be Done: Policy Recommendations

For all the snarling rhetoric on both sides of the Pacific, China has more or less met the two conditions on emigration and prison labor and is close to what can in good conscience be deemed "overall, significant progress" in most of the five categories of issues. Over the past year there has been a significant shift in congressional opinion. A growing number of members publicly question or disagree with the wisdom of linking MFN status to human rights. House Foreign Affairs Committee Chairman Lee Hamilton (D-Ind.), an influential voice, wrote, "U.S. policy makers should not assume that the policy tools of the recent

past—threatening the termination of MFN—will necessarily be appropriate for China's future."¹⁰

President Clinton should use his decision on MFN status to call a halt to the tit-for-tat cycle of U.S. moralizing and Chinese truculence and to articulate a new U.S. policy toward Beijing. He should declare that the annual MFN ritual has become an impediment to a smart, tough-minded, and relentlessly reciprocal policy toward China, one that uses all the tools of U.S. diplomacy to advance our broader interests in nonproliferation, regional security, commerce, and democratic change.

A new policy should include these steps:

- ▶ severing MFN renewal from human rights conditions;
- ▶ negotiating an arrangement with Congress to repeal the Jackson-Vanik amendment and replace it with an executive order on Jewish emigration from Russia; or, in lieu of that, commissioning a Treasury Department study to determine if China is a non-market economy;
- ▶ creating a U.S.-China bilateral human rights commission composed of official and NGOs and individuals as the centerpiece of a dialogue aimed at keeping the spotlight on human rights;
- ▶ pressing other governments at the July G-7 economic summit to propose that their respective private sectors voluntarily adopt a uniform code of conduct for doing business in China;
- ▶ banning the import of Chinese-made guns, particularly assault rifles, which profit firms run by the PLA;
- ▶ opposing loans to China (the largest borrower from the World Bank) beyond those for basic human needs and environmental protection and seeking to build a G-7 consensus on conditioning future International Development Agency concessional lending on human rights criteria;
- ▶ demonstrating support for Chinese democracy by raising the level of contacts with Taiwan, including from Cabinet-level economic officials,

¹⁰ See the Introduction to *Beyond MFN: Trade with China and American Interests*, Edited by James R. Lilley and Wendell Willkie II., AEI press, 1994.

and exploring with Beijing ways to allow Taiwan's participation in the U.N. system in a "one-China" framework;

- ▶ expanding official and NGO contacts, particularly cultural exchanges, sister-city exchanges and exchanges among students, professional organizations, and media organizations;
- ▶ closely monitoring implementation of Beijing's commitments under the 1984 U.K.-Chinese accord for a 1997 transition to Chinese rule in Hong Kong, benchmarking the Chinese commitment to maintain Hong Kong's social and economic system for 50 years;
- ▶ proposing the creation of a joint U.S.-Chinese commission on constitutionalism and rule of law;
- ▶ promoting third-party mediation between Beijing and the Dalai Lama (along the lines suggested in a recent U.S. Institute for Peace report) to create the political space for more Tibetan self-direction based on the greater Tibetan autonomy provided for in agreements and Chinese laws;¹¹
- ▶ expanding VOA broadcasts of local news in local Asian languages (particularly Mandarin, Cantonese, Tibetan, Burmese, and Vietnamese).

This new approach to democracy and human rights is designed to accentuate, not diminish, their importance. By not conditioning the entire relationship on MFN, we can more easily keep the public spotlight on human rights and democratic reform. Human rights should be part of a new, comprehensive agenda, one of five key "baskets" of concerns that also include economic, strategic, political/security, and cultural/scientific issues. Attaining results in each of these areas is the measure of an engagement strategy. By disaggregating the issues, Chinese transgressions in one area, such as trade or proliferation, can be met with proportionate responses—imposing Section 301 or anti-dumping measures in the case of trade violations, curbing high technology exports in the case of proliferation, or public castigation on human rights transgressions.

Ultimately, the measure of a successful U.S. policy toward China is Beijing's integration into an international system based on liberal political and economic

¹¹ See the report of the U.S. Institute for Peace conference on Sino-Tibetan coexistence, February 1994.

principles. On a broad range of strategic, political, and economic issues, Chinese and U.S. interests do not necessarily diverge, and achieving cooperation in these areas will define where cooperation is possible and where differences pit us in adversarial roles:

- **Economics:** The thrust of U.S. market access talks with China involves transparency-related issues that China must address in order to join the GATT or its successor, the Multilateral Trading Organization (MTO). It must reduce tariffs on a broad range of products that are substantially higher than those imposed by other developing economies and set tariffs on items whose importation are now restricted.

Beijing's recent currency reform is an important step in this direction. In 1993, the U.S. trade deficit with China was some \$23 billion, second only to that with Japan. This deficit is misleading, as roughly one-third of it reflects Hong Kong and Taiwan production in south China (see chart at end of report). The total U.S. trade deficit with "greater China" has remained roughly constant since 1986. Nonetheless, many of China's trade practices are unacceptable and should be assailed through both bilateral and multilateral trade instruments.

One key economic benchmark is intellectual property rights (IPR). While China has signed agreements on IPR, it has not followed through with enforcement. Consequently, China is the world's leading maker of pirated compact discs and tapes. It must commit to establishing a serious enforcement mechanism. Another is follow-through on its commitment to open its financial services markets. The Section 301 instrument should be judiciously applied to China as a lever on these economic issues.

- **Proliferation:** Fitfully but steadily, China has been moving toward international norms. It has joined the Nonproliferation Treaty (NPT), signed the Chemical Weapons Convention, and pledged adherence to the MTCR. It should also support an indefinite extension of the NPT. The United States should accelerate talks with China aimed at a cutoff of fissile material production, as President Clinton has proposed. In its strategic dialogue with Beijing, the United States should seek to bring China into the MTCR as a member (after gaining clarification on the M-11 issue) and also into the Nuclear Suppliers Group. Full cooperation in resolving the North Korea nuclear issue is the most pressing proliferation issue and an important test of the prospects for Sino-American partnership.

- **Strategic Arms:** China has more than 400 nuclear warheads and may be planning to fit its newest ICBM missiles with multiple warheads. This would be a dangerous and destabilizing step that the United States must strenuously oppose. The U.S.-Chinese military-to-military dialogue should involve bottom-line discussions on threat perception, doctrine, the role of nuclear weapons, communications command and control, and arms control. The United States should propose post-START cuts in nuclear arsenals, but only in a multilateral framework of the five permanent members of the U.N. Security Council, offering to make further reductions beyond START if France and China make proportionate cuts. In addition, Chinese support for a comprehensive nuclear test ban by 1996 is an important benchmark issue.

U.S. and Chinese interests in Asia overlap in important areas. China has long accepted that the U.S. forward deployed presence in Japan and Korea is essential to maintaining stability, and its buoyant relationship with Japan is premised on the continuance of the U.S.-Japan security alliance. The emergence of an independent Japanese strategic posture would likely produce instability and strategic competition in Northeast Asia. But there also are some gray areas regarding China's policy toward Asia that require nurturing and creative diplomacy. The key areas are:

- **Korean Peninsula:** Managing the reunification of Korea is the preeminent East Asian security issue for the rest of this decade. Its most urgent aspect is North Korea's apparent quest for nuclear weapons, which is at once a global proliferation and a regional security issue and must be managed as such. China's influence over North Korea is less than many observers believe, particularly since it opened ties to Seoul, in essence over Pyongyang's dead body. But its supply of oil and food to North Korea makes it second only to Japan in economic importance to the Kim regime.

China has no interest in either Korea's attaining nuclear weapons or in war or chaos on its border. The United States should bring China (and Russia) into its circle of consultation and policy coordination with Seoul and Tokyo—the interests of these major powers intersect. Such an initiative could be a prelude to a Northeast Asia political consultation framework to manage a range of sub-regional issues raised by the unification of Korea as well as other issues such as the environment, military transparency, and regional economic development. The North Korean nuclear issue is an important test: China should not veto a move by the international

community to impose sanctions if Pyongyang refuses a reasonable negotiated resolution.

- **Southeast Asia/South China Sea:** The most likely source of conflict in Southeast Asia is the Spratlys dispute. It is the probable venue for China's first major exercise in force projection. How this territorial dispute is resolved is a litmus test of China's role in Asia. Beijing's official position is to defer sovereignty claims and collectively share the resources of the area with all other claimants. Yet it has made provocative moves, such as awarding an oil exploration contract to Crestone, a U.S. company, in an area of the South China Sea within Vietnamese territorial waters. Moreover, Indonesian Foreign Minister Ali Alatas since 1991 has sponsored "official informal" workshops on the South China Sea in which officials of all claimant states attend in unofficial capacities. Yet when Alatas has proposed making the informal talks official negotiations, China has resisted.

The United States should work with Alatas and his ASEAN colleagues to press for a negotiated settlement before China attains air refueling and other force projection capabilities that will allow it to dictate the terms of a settlement. This is a litmus test of the new Asian Regional Forum (ARF), the inaugural session of which will occur this July. In addition, the U.S. strategic dialogue should include a discussion of the China's strategic relations with Burma, where it is building roads and port facilities.

- **South Asia:** China is a vital part of the India-Pakistan equation. Beijing's nuclear behavior will affect that of India and, thus, that of Pakistan. China controls territory bordering on both Indian- and Pakistani-controlled Kashmir. A U.S. mediation effort on Kashmir should include bilateral talks about the issue with China and renewed efforts to initiate five-power talks (among India, Pakistan, China, Russia, and the United States) on these issues.
- **Environment:** China is already producing acid rain that is showing up in South Korea and Japan, and its coal-burning is a major source of global warming. The United States should initiate a high-level bilateral dialogue on global environmental issues, pursue acid rain in the Northeast Asia context and within the Asian Pacific Economic Cooperation (APEC) dialogue to begin exploring cooperative solutions.

Conclusion

The policy approach outlined above calls for engagement, not isolation; patience, not instant gratification; subtlety, not confrontation. It reflects an underlying confidence that an information-age economy cannot long be sustained without a comparably open political system. This confidence grows out of the experience of East Asia over the past quarter-century: one of tremendous economic dynamism and multi-tiered growth. As Japan took off economically, it pulled the four newly industrialized economies (NIEs)—Hong Kong, Taiwan, South Korea and Singapore—along. Japan and the NIEs are now pulling along the NIEs of the 21st century—Indonesia, Malaysia, and Thailand. This economic development pattern of horizontal integration has fostered burgeoning urban middle classes, which has in turn led to political pluralism: Inspired by "people power" in the Philippines, South Korea underwent a democratic transformation in 1988, Taiwan has undergone a similar process, and, in 1992, Thailand saw democracy triumph. In a sense, Tiananmen was an effort by new social forces created by economic reform to assert themselves politically.

Clearly, the driving force shaping China's future is economics. Its Central Committee Plenum last November decided to accelerate economic reforms, including banking and tax reform and the privatization of more than 300,000 state-owned industries, most of which are not profit-making. Roughly half its economy is already privatized. Political reform, which will likely be bound up in the succession to Deng, is likely to ensue. This process, like its path of economic reform will not be smooth or linear: there will be ups and downs, successes and setbacks. The challenge for the United States is to reinforce those forces—entrepreneurial growth and the flowering of civic life—that are revolutionizing Chinese society and building pressures for political change.

U.S. EXPORTS TO HONG KONG & CHINA BY STATE—1993

(VALUE IN \$MILLIONS)

STATE	TOTAL EXPORTS TO HONG KONG & CHINA COMBINED	EXPORTS TO HONG KONG	EXPORTS TO CHINA	TOP EXPORTS
CALIFORNIA	4,560	2,905	1,655	Electronics, transportation equipment, machinery, food, medical instruments, petroleum and oil, agriculture
WASHINGTON	2,548	606	1,942	Transportation equipment, lumber, food, agriculture, fish products, paper, medical instruments, electronics
NEW YORK	1,868	1,209	659	Manufactured products, machinery, transportation equipment, metal products, electronics, agriculture
ILLINOIS	1,024	296	728	Electronics, chemicals, machinery, transportation equipment, food, primary metal products
TEXAS	932	533	399	Electronics, chemicals, machinery, petroleum and oil, medical instruments, transportation equipment
CONNECTICUT	617	175	442	Metal products, agriculture, machinery, electronics, chemicals transportation equipment
NEW JERSEY	574	273	301	Electronics, machinery, chemicals, paper, metal products, transportation equipment
MASSACHUSETTS	490	373	117	Machinery, electronics, machinery, medical instruments, paper, textiles, chemicals
MICHIGAN	390	179	211	Transportation equipment, machinery, chemicals, stone/clay/glass, furniture
PENNSYLVANIA	352	212	140	Machinery, chemicals, electronics, medical instruments, food, textiles
FLORIDA	320	118	202	Chemicals, electronics, transportation equipment, medical instruments, agriculture, machinery
OHIO	316	143	173	Machinery, electronics, chemicals, medical instruments, food, stone/clay/glass
ARIZONA	314	248	66	Electronics, transportation equipment, metal products, machinery, medical instruments
NORTH CAROLINA	312	159	153	Chemicals, machinery, tobacco, agriculture, electronics, textiles, metal products
OTHER	4,023	2,444	1,579	
TOTAL U.S. EXPORTS	18,640	9,873	8,767	

Compiled from U.S. Department of Commerce Statistics.
These statistics represent state-generated exports.

PROGRESSIVE POLICY INSTITUTE

***"One person with a belief is a social power
equal to ninety-nine who have only interests."***

—John Stuart Mill

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The Progressive Policy Institute is a project of the Democratic Leadership Council. For further information, please write the Institute:

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Progressive Policy Institute
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Right Goal, Wrong Weapon: Human Rights and MFN for China

"It is not clear that external pressure damaging China's trade will influence the government in positive ways....MFN status helps our economic reforms and in the long run that will help improve human rights." Chinese dissident Yang Zhou.

President Clinton must decide by June 3 whether to extend most-favored-nation (MFN) status to China. In a concession to Congressional opponents of China MFN, the President issued an executive order last year requiring him to certify that progress had been achieved in China's human rights record in order for MFN to be extended. The Administration seems willing to extend MFN. It has also made it clear to Beijing that further progress is still necessary before the June 3rd deadline.

Misleading semantics distort the debate. MFN status is not a concession and it *does not* mean that China is our most favorite nation. Rather, MFN status means that China and the United States grant each other the same—no *less* favorable—tariff treatment they provide to other respective trading partners granted MFN status. The United States has reciprocal MFN arrangements with some 180 other countries—including Iran, Iraq, Libya, Burma, and even South Africa under apartheid.

Opponents of MFN argue that there has been little if any progress in China on human rights and they are prepared to introduce legislation to bar MFN. The problem is that MFN is simply too blunt an instrument to define U.S. relations with China, a nation with 1.2 billion people—22 percent of humanity—a permanent seat on the U.N. Security Council, by some measures the world's third largest economy, and a nuclear and missile arsenal. Without relenting in our criticism of China's mistreatment of its own people, we must find ways to engage China across a broader spectrum. *Moreover, as a great power emerging from more than a century of foreign invasion and occupation, China is more likely to respond positively to dialogue and consultation than to ultimatums.*

Denial of MFN status would:

- ▶ **Undermine Sino-American cooperation on vital security issues**, such as halting North Korea's quest for nuclear weapons, forging a nuclear test-ban treaty and otherwise strengthening international nonproliferation norms and institutions, and military-to-military dialogue.
- ▶ **Severely damage a \$40 billion U.S.-China trade relationship** and jeopardize some \$9 billion in U.S. exports to China, \$10 billion in committed U.S. investment in China, and 200,000 jobs related to exports to China, as Beijing would retaliate against U.S. goods. U.S. tariffs on the \$31.5 billion in Chinese goods we import would increase by an average of 50 percent, pricing many of the cheap consumer goods Americans rely on out of the U.S. market. A recent World Bank study cites an estimate that

denying MFN status would cost U.S. consumers as much as \$14 billion annually.¹

► **Endanger U.S. competitiveness** in a rapidly growing economy. Boeing already has orders for 64 planes worth \$4 billion and estimates that China will need 800 airplanes worth \$40 billion in the next 15 years. According to projections, China will need \$90 billion in power-generation equipment during the rest of this decade, \$29 billion in telecommunications equipment over the next five years, \$18.2 billion in oil and gas equipment in the next three years, and \$5 billion in computers over the next eight years. In a trade environment poisoned by loss of MFN status, will China choose Boeing over Airbus, Chrysler over Mercedes?

► **Adversely affect Hong Kong and Taiwan.** The economies of Hong Kong and Taiwan are increasingly integrated into a single, greater Chinese economy. Hong Kong is the entrepot for 64 percent of Chinese exports to the United States. The Hong Kong government estimates that denying China MFN status would cost it \$24 billion in trade, \$3.4 billion in income, and 75,000 jobs. Taiwan has more than \$20 billion in annual trade with the mainland and some \$20 billion invested in it.

► **Isolate the United States.** No other G-7 nation or any Asian nation is considering denying China MFN. Doing so would isolate the United States and benefit economic competitors. It also would contribute to what Assistant Secretary of State Winston Lord called a "malaise" plaguing the U.S. image in Asia, which has a reputation as "an international nanny, if not bully."²

► But most of all, it would **set back human rights** and destabilize economic reform in China. *Indeed, the best reason to guarantee MFN status for China is that it buttresses economic and social forces that are creating demand there for political change.*

The United States should craft a new policy toward China that combines clear and unchanging strategic aims with a higher degree of tactical flexibility.

Linking China's MFN status to human rights is counterproductive to our national goals of advancing nuclear proliferation, regional security, market-oriented economic ties, and democratic change within China itself. President Clinton should unlink MFN from human rights conditionality and articulate a new U.S. policy toward China based on a calculus of U.S. priorities to advance our broader interests in nonproliferation, regional security, commerce, and democratic change.

Instead of lecturing Beijing, which simply evokes petulant non-cooperation, the United States should engage more directly with the people of China—especially a new generation with rising expectations of prosperity and freedom. Instead of trying to change China from the outside in, we should explore new ways to bolster Chinese reformers working to transform their society from the inside out.

Political reform in China, like economic reform there, will not be smooth; there will be success and setbacks. The challenge for the United States is to reinforce those forces—entrepreneurial growth and the flowering of civic life—that are revolutionizing Chinese society and building pressures for political change.

¹ See China: Foreign Trade Reform, The World Bank, February, 1994, pps. xxix.

² See "U.S. Aide Sees Relations With Asia in Peril," *The Washington Post*, May 5, 1994, p. A38.

cc Amy
5/26

May 26, 1994

President Bill Clinton
The White House
Washington, D.C. 20500

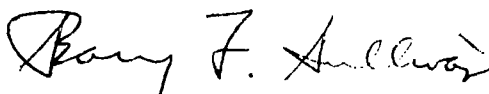
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China's record on human rights continues to be of concern to New Yorkers, as it is to your administration. We count on your leadership to devise a U.S. policy that will encourage the development of trade between our countries, while pursuing a multilateral approach to advance U.S. human rights objectives.

Sincerely,



Barry F. Sullivan
President and CEO

New York City Partnership, Inc.
One Battery Park Plaza
New York, NY 10004-1479
Tel: 212 493-7400
Fax: 212 344-3344

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May 26, 1994

Ms. Ruby Moy
Executive Assistant to Alexis Herman,
Assistant to the President
The White House, 2nd Floor, West Wing
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Ruby:

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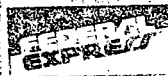
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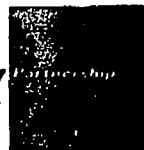
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May 26, 1994

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Executive Assistant to Alexis Herman,
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The White House, 2nd Floor, West Wing
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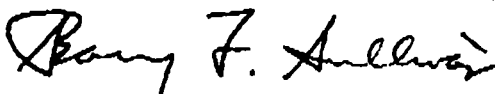
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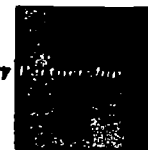
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AJ Contracting Company, Inc.
Richard A. Voell
The Rockefeller Group
Linda Wachter
Warner Bros. Inc.
Fred Wilpon
Sterling Equities
Robert C. Wright
NBC
Mortimer B. Zuckerman
New York Daily News

**SUPPORT VOICED FOR PRESIDENT'S CHINA MFN DECISION
BY MAJOR U.S. COMPANIES**

**JOINT STATEMENT FROM
AIG, AT&T, BOEING, CHRYSLER, DIGITAL EQUIPMENT,
GE, HONEYWELL, KODAK, MOTOROLA, TRW**

WASHINGTON, D.C. -- May 26, 1994 -- President Clinton's decision on renewal of most-favored-nation (MFN) trade status for China was applauded today by a group of major U.S. companies.

"We commend President Clinton for a balanced decision that clearly recognizes the point that a vibrant economic relationship and respect for human rights are mutually reinforcing. He has shown leadership and statesmanship in defining the multiple goals of America's relationship with China and in identifying appropriate means to advance those goals."

"We believe that U.S. companies operating in China apply management, personnel, ethical, environmental, manufacturing, quality and many other traditional and innovative business 'best practices.' These practices often have a profound and positive impact on the lives of Chinese employees and others with whom our companies interact," the companies stated.

"Today's announcement will help to ensure that the positive effects arising from our presence in China can continue to grow. The decision will preserve and expand U.S. jobs and exports, as well as addressing the full range of U.S. objectives in China."

The CEOs of AIG, AT&T, Boeing, Chrysler, Digital, GE, Honeywell, Kodak, Motorola, and TRW recently conveyed to the President their support for de-linkage of MFN and human rights.

The companies said that they stand ready to engage in a continuing dialogue with the Administration on the important issues in U.S.-China relations.

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**NEWS**

International Public Affairs

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Telephone: (313) 322-9630
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STATEMENT

Contact: Ken Brown
(313) 322-9214

MFN RENEWAL FOR CHINA

The following is a statement from Ford Motor Company on MFN renewal for China:

We support the decision to de-link trade and human rights and to renew MFN status for China. It is mutually advantageous for the United States and China to cooperate and trade more closely together. Ford Motor Company is committed to being a significant participant in the developing Chinese automotive industry.

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5/26/94



NAM APPLAUDS PRESIDENT CLINTON'S MFN DECISION

WASHINGTON, D.C., May 26, 1994 -- "The President's historic decision to de-link trade and human rights is the best decision for the American economy and jobs," said National Association of Manufacturers President Jerry Jasinowski. "We are prepared to work with the President in a constructive manner toward the shared goals of increased U.S. business engagement with China and enhanced human conditions in China.

"The NAM has urged both the Administration and Congress to depoliticize our trade relations with China, and this resolution puts us on the right track. It will permit American companies to compete with foreign rivals in China -- the fastest growing economy in the world.

"American business has been a positive force in improving human rights and conditions in China. We can't do that if we are not there," Jasinowski continued. "This will help assure that businesses can continue to advance these causes by employing Chinese citizens in good, well-paying jobs, affording them a higher standard of living and exposing them to American practices and values."

The decision will also benefit the U.S. economy by allowing our companies to create more jobs and compete successfully in the global marketplace, according to Jasinowski. "Across a broad array of sectors, from telecommunications to commercial aircraft to construction equipment, China represents huge new markets for which there are no substitutes," concluded Jasinowski.

-NAM-

1331 Pennsylvania Avenue, NW, Suite 1500 - North Tower, Washington, DC 20004-1790

NEWS ALERT



1 Jack Schubert
2 Benson
3 Rubin
4 Joe H.
Hank Barnett

Alvin Tuck

John Bue

George Fisk

Hank Green

Jerry Cook

Ray Bush

Paul Allie

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TALKING POINTS FOR HILL MFN CALLS

-- I am calling to tell you that the President will announce later today that he has determined that China has not made overall significant progress on human rights.

-- Because of China's failure to achieve overall significant progress, the President has decided to impose new sanctions, barring the import of Chinese made arms and ammunition, the vast majority of which are produced by government controlled industries.

-- At the same time, the President has decided to delink our annual decisions about China's trade status from our assessments of China's human rights progress, and to pursue a fresh, new approach to our human rights concerns with China.

-- Our new program to promote human rights and democracy in China includes:

- The establishment of a US Commission on Human Rights in China to provide a forum for private citizens and officials from the Congress to develop programs to enhance human rights in China;
- Proceeding with the establishment of Radio Free Asia, increasing of the Voice of America's radio broadcasts to China and the inauguration of a weekly VOA television program to China;
- Working to have American businesses develop a set of principles regarding their activity in China;
- Pressing UN human rights monitors and the UN Human Rights Commission to address human rights abuses in China, as elsewhere;
- Encouraging and providing assistance to American NGOs to permit them to increase their support, where it is lawful and desired, to private groups in China working to express their views; and
- Keeping in place the economic sanctions our nation imposed after the Tiananmen massacre. We will also continue to oppose non-basic human needs loans to China by the World Bank and other international financial institutions.

-- The President consulted extensively with the Hill both directly and through his advisors. He also talked with foreign policy experts, representatives from the human rights community and the business community.

-- In making this decision he carefully weighed the complexities of our relationship with China: security-- China has a nuclear arsenal and a ~~3.5 million person army~~; political-- China has a permanent seat on the Security

Council and has an important relationship with North Korea; and economic-- China is the world's fastest growing economy and market.

-- He also evaluated China's response to the two mandatory and five other human rights conditions in his Executive Order. His assessment was that there has been progress on the two mandatory provisions-- freedom of emigration and prison labor exports.

-- There has also been progress to varying degrees on the five other non-mandatory provisions in the Executive Order: Chinese adherence to the Universal Declaration of Human Rights; prisoner releases (including two leaders in the Tiananmen demonstrations-- Wang Juntao and Chen Ziming); humane treatment of prisoners; the status of Tibet; and stopping the jamming of VOA.

-- But while China released some dissidents from prison, it continued arrests of peaceful protesters, and failed to release many other dissidents. In addition, the Chinese Government also fell short of the Executive Order's expectations regarding protections for Tibet's religious and cultural heritage.

-- This decision is by no means a retreat from our commitment to pursue human rights in China and to work to see that nation make a political as well as an economic transformation.

-- Finally, as you might expect, the President's overriding concern is what is in America's best interest; how can we best advance our nation's security, prosperity and ideals not only in China but throughout Asia and the world. He believes that the path I have just described is our best course of action.