

The American Chamber of Commerce in Hong Kong Position Paper

RENEWAL OF MOST FAVORED NATION STATUS FOR CHINA

The Issue

Each year the United States Government must decide whether to extend Most Favored Nation (MFN) tariff treatment for imports of goods from the People's Republic of China. The vast majority of the United States' trading partners receive MFN treatment. However, as the law currently stands China may receive MFN status only if the President certifies to Congress that China permits free emigration of its citizens, or if he waives this requirement. President Clinton will make his recommendation to Congress on or before June 3, 1993. Congress has 60 days from the expiry date of the current MFN status to decide whether to support or oppose the President's recommendation.

Opponents of renewing MFN argue that China does not deserve the benefits of MFN treatment due to human rights abuses, unfair trade practices and arms sales to politically unstable nations. They are seeking to attach conditions thereby linking renewal to these issues. China, however, has made it clear that such conditions would be considered tantamount to withdrawal.

Supporters of unconditional MFN status argue that rescinding MFN would cause serious damage to American economic interests at a time when China's economy is experiencing the world's fastest growth and its markets are opening rapidly. US strategic interests and ability to cooperate with China on important international issues would be compromised. Moreover, the resulting dramatic decline in US-Chinese economic interchange would represent the loss of a powerful force for positive social and political change in China.

Position

**MOST FAVORED NATION TARIFF TREATMENT SHOULD BE
UNCONDITIONALLY EXTENDED TO CHINA FOR ANOTHER 12 MONTHS.**

Rationale

1) Effects on the United States

The granting of MFN is reciprocal: if China loses MFN, so does the US. If MFN is withdrawn, China will retaliate. This would put at risk some \$7.5 billion in US exports and could cost as many as 150,000 American jobs, especially in the agriculture, aviation and technology industries. US exports to China have grown by an average of 25% in the last two

years making China one of our fastest growing export markets. Also, American consumers will be required to pay higher prices for items such as apparel, footwear, electrical appliances, and toys.

The US trade deficit with China appears large but should be seen in the context of US trade with "Greater China", or China, Taiwan and Hong Kong. Because of the significant shift of manufacturing from Taiwan and Hong Kong to China in recent years, China's surplus with the US has expanded while Taiwan's and Hong Kong's have declined, but the overall balance has not changed significantly. In 1991, the US deficit with "Greater China" (US\$23.7 billion) was lower than it was in 1987 (US\$27.0 billion). In 1992 it reached US\$28.3 billion, which represented only a 5% increase over the peak in 1987. While Taiwan and Hong Kong's surplus with the US continued to shrink, China's rose significantly; this is partly due to the jump in exports by foreign invested enterprises in China which now account for 26% of China's exports.

Removal of MFN would undermine the United States' historically strong and strategically important economic influence in Asia. This would result in a long-term estrangement of U.S.-China relations that would be difficult to repair. Moreover, by withdrawing MFN, the U.S. would cede valuable business opportunities to other nations, most notably Japan. China is enjoying one of the highest growth rates in the world and is implementing economic reform in a steady and non-destabilising manner. In the 1980's, China was the fourth largest recipient of worldwide foreign direct investment among the developing countries. In 1992 alone, it attracted US\$57 billion in new FDI contracts, slightly more than the total value for the previous twelve years. This flood of new FDI was in response to the Chinese government's relaxation of the restrictions on selling to China's domestic market and the opening of new sectors of the economy to foreign investment. European, Japanese and Canadian governments are offering concessionary loans to assist their respective companies in the China market; the United States is the only country that is considering new trade sanctions against Beijing, thereby hindering US competitiveness in this huge market.

2) Effects on Hong Kong

Hong Kong would be dealt a heavy economic and political blow if MFN is withdrawn. The territory is greatly dependent on entrepot trade between the U.S. and China, and has benefited from China's reforms by acting as a middleman between China and overseas markets. If China no longer has MFN status, the loss of re-exports and the knock-on effects would hurt virtually every sector of Hong Kong's economy.

The Hong Kong Government estimates that withdrawal of China's MFN status would result in a loss of US\$15 to 21 billion in overall trade, US\$2.1 to 2.9 billion in income and up to 69,000 jobs.

American business interests in Hong Kong would likewise suffer. The U.S. enjoys a large degree of popular support in Hong Kong as one of the territory's largest markets and foreign investors. Some 900 American companies employ an estimated 250,000 people (10% of the work force) and are effective promoters of American interests and values.

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Hong Kong is a powerful catalyst for reform in China. To damage Hong Kong's economic well-being would result in a set-back in the process of reform in China.

3) Effects on the Chinese People and on their Government

Withdrawal of MFN would severely damage the economy of Southern China and the coastal regions, the very areas that have been at the forefront of China's reform movement. An estimated 2 million people in Guangdong province alone would lose their jobs. This would not hasten positive change in China, but delay it. The U.S. should be encouraging rather than undercutting the pro-reform elements that lead this economic region.

Removal of MFN will do nothing to improve human rights in China. Economic interchange with the outside world is a positive force for improving human rights in China. It has stimulated Chinese citizens' growing awareness of their civil rights. It has also contributed to significant improvement in the standard of living in China which, together with major reform in the country's economic structure, has resulted in social changes. These changes are gradually generating pressure in China *domestically* for greater accountability and transparency from China's leadership.

4) Alternative Means of Achieving Positive Change in China

The many problems in the US-China relationship are best dealt with by means of established channels appropriate to the resolution of each problem, rather than by withdrawing MFN and destroying the very foundation of US-Chinese economic relations. The following are specific examples of the effective use of such channels.

Nuclear Non-Proliferation - Due in large part to pressure from the U.S. Government, China finally acceded to the Non-Proliferation Treaty in March of 1992.

Missile Technology - A successful campaign by the U.S. Government yielded China's agreement to adhere in full to the Missile Technology Control Regime in 1992. Withdrawal of MFN would hamper efforts to ensure compliance with this agreement.

Human Rights - Under U.S. Government and other international pressure, China has for the first time begun a dialogue on human rights.

- Delegations from western governments have, since 1989, engaged Chinese government officials at all levels on the issue of human rights; in some cases presenting specific demands for prisoner releases which have attained results. In the United Nations, China's human rights record is now a subject of regular discussion.
- While insisting on the one hand that human rights is its internal affair, China has for the first time produced a "White Paper" on the subject; more importantly, policy making institutes in China have established human rights and legal divisions which are drafting position papers, engaging in scholarly exchange with other countries, and considering human rights-related legislation.

- Under a memorandum signed in July 1992 the U.S. and Chinese governments are cooperating to ensure that products produced by prison labor are not exported to the U.S. in accordance with both U.S. and Chinese law.

This pressure and the dialogue that it has created must be maintained in order to insure steady, comprehensive and *systemic* change in China.

Intellectual Property Rights - After intense negotiations pursuant to the "Special 301" section of U.S. trade law, the U.S. and China signed a memorandum of understanding in 1992 in which China agreed to take significant steps towards improving protection of copyright, patent, and trademark rights, violations of which had been costing U.S. companies hundreds of millions of dollars a year in lost revenues. The USTR will closely monitor China's adherence to the agreement.

Trade - As a result of Section 301 market access negotiations initiated by the US Trade Representative, China and the US completed a Section 301 agreement in October 1992 under which China agreed to reduce non-tariff barriers to trade (licenses, quotas etc.) over a four year period. The USTR will be monitoring closely China's compliance with the agreement. The USTR is also involved in intense negotiations with China to develop an acceptable protocol for China's accession to the GATT; China is eager to gain GATT admission and will be required to make significant reforms to its trade regime to meet GATT standards of compatibility.

Imports - With the goal of bringing its tariff rates closer to those of other GATT member countries, China unilaterally reduced import tariffs on 225 commodities in January 1992 and 3,000 commodities in December 1992, and removed its Import Adjustment Tax on April 1, 1992.

Civil Aviation - China recently concluded a civil aviation agreement with the U.S., further opening the China market for U.S. flag carriers and thus improving passenger and cargo service.

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