China Essay, Research Paper

China as Most Favored Nation

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What is the debate on weather or not China should retain favored-nation trading status all about? Is it really a decision on what is best economically for the United States, and China.

Or is it: the issue of Chinese human rights violations and the fact that if the United States where to revoke the favored nation status of China it would have a profound negative impact on the U.S. economy alone.

(+)Most-favored-nation trade status started in the United States as a version of the European preferential trade system. The Carter Administration first granted most-favored-nation trading status to China in 1980, following the historic efforts of President Nixon during the 1970?s to restore diplomatic ties. Historically, a significant difference existed between the unconditional most-favored-nation clause in European trade law and the American version of conditional most-favored-nation. Under unconditional most-favored-nation status, one country’s extension of tariff concessions guarantees the same concessions to all nations associated with it through commercial treaties. American conditional most-favored-nation status provided treaty signatories only the opportunity to negotiate most-favored-nation status when most-favored-nation status was extended to another trading partner. Thus meaning that the United States gives significant economic advantages to one nation in the form of most-favored-nation trading status.

Under the Trade Act of 1974, most-favored-nation status could only be granted to China through a Sino-American bilateral commercial agreement and satisfaction of the Jackson-Vanik Amendment requirements. The Jackson-Vanik amendment states that the President of the United States may grant a communist country such as China most-favored-nation trade status if it was in conjunction with a trade agreement and upon proper improvement that China would permit emigration. Also China would have to satisfy that they are moving toward improving current policies. The conclusion of the US-PRC commercial accord in July 1979, and the initial waiving of the Jackson-Vanik requirements, and with Congressional approval, most-favored-nation status was granted to China. This action sealed the successful efforts of the Carter Administration to create social and economic ties through Sino-American relations.

The renewal of China?s most-favored-nation trade status has been supported by Chinese liberalization of its own emigration policies. Six hundred and twenty-five thousand Chinese citizens traveled abroad in 1990. The Chinese government in 1990 issued 280,000 new passports. During the same year, the United States issued seventeen thousand immigrant visas through consular offices in China, the full number allowed by American immigration law. The principal restraint to Chinese emigration has arisen not from Chinese emigration policies but from the unwillingness of other countries to accept immigrants. Most-favored-nation status for China continues to provide an incentive for further advancement in this area as well as facilitating the contacts that the Carter administration established well over a decade ago.

By granting China most-favored-nation trade status the United States has started that long and difficult process of bringing China out of its international dark ages. In order to live up to the terms of most-favored-nation trade status China has had to become more open to social and economic changes. These reforms included more economic freedom, easier access for foreign direct investments. The economic developments these reforms have been to a main cause for China?s newly increased gross nation product. Over a ten-year period from 1978 to 1988 most-favored-nation trade status was directly responsible for an annual ten percent growth in China?s gross national product.

China will likely prove to be a significant market for the U.S. in the future. China is one of the world’s fastest growing economies, and with its efforts to reform, improve, and modernize its economy could come a significant increase in demand for imports. Infrastructure development, in particular, has been made a major priority, and the Chinese government has also announced that foreign firms will be allowed to participate in a wide variety of projects. This is very important to the United States because it mean that there is for the foreseeable future a market for their goods and services in China. Also as a result of the most-favored-nation trade status that China currently holds it makes the opportunity for international business ventures there even that much interesting because of the possibility of high profits.

Another advantage for the United States is in the area of imports from China. The surge in United States imports of Chinese products over the past few years can be largely explained by two factors. First, China’s production of low-cost, highly labor-intensive products has grown greatly in recent years. A main reason for this is that the price that which the Chinese are able to produce goods is at a lower level than almost any other producer. In addition the United States demand for product of this type has and mostly likely will continue to rise in the future. In response Taiwan and Hong Kong have moved many of their production firms into China to take advantage of lower labor costs. This is good for the economy of China and it also helps to supply the United States with low cost goods.

(=)The growing U.S. trade imbalance with China, and the exclusive market segments of China’s trade regime have become of major concern to many U.S. policymakers. Over the past few years, the U.S. trade deficit with China has surged. It rose to nearly 50 billion in 1997 and could top or exceed 60 billion in 1998.

China’s trade policies have become a focal point in the annual congressional debate over renewing China’s most-favored-nation trade status. Along with other non-trade issues, including but not limited to human rights violations, weapons sales, and foreign policy issues. Over the past several years, efforts have been made in Congress to terminate, or attach additional conditions to, China’s most-favored-nation trade status, although none have as of yet succeeded. This policy was opposed by the Bush Administration, which sought to deal with these issues outside the most-favored-nation trade status process. As a result, President Bush vetoed congressional attempts to revoke or condition China’s most-favored-nation trade status, and such vetoes were consistently sustained in the Senate. As a presidential candidate, Bill Clinton criticized the Bush Administration’s China policy and pledged to take a tougher approach to United States-Chinese trade relations, including conditioning China’s most-favored-nation trade status renewal. To date many of the very same issues that the United State objected to in the past are still going on every day in China.

From the American political viewpoint it would seem only right to continue to renew China?s most-favored-nation trade status. Politicians are concerned about is whether or not the United States economy is strong and if it is not, then finding something that they can do to make it that the economy is getting better. So most of the world turns a blind eye to many of the issues that China is currently having and just disregards them. This meaning that if there were any human rights violations or other types of acts that violated the pact that China signed to earn most-favored-nation trade status, then the United States have a responsibility. A responsibility to do whatever it can as the United States to ease and or end any of the suffering or unfair hardship that the people of China are currently experiencing. It is our duty as human beings to ensure that a high global standard of living. This should be the bottom line. Because the way that it seems now, the United States is much more concerned about getting inexpensive goods from China and being able to help China update its infrastructure. The question that has to be asked annually when a vote about China?s most-favored-nation trade status comes up is that if it is all right for China to do the things that they do. If we decide that China?s violations of their most-favored-nation trade status are not forgivable then the United States need to cut its economic ties with China. Decisions like these would be very difficult for the economies of both nations, but it comes down to the fact that money is not the most import thing. Other values have to be placed before the interest of making as much money as possible.

(-) Other concerns about future dealings with China have also arisen. The United States has voiced its concerns in recent about China’s missile and nuclear proliferation activities. These concerns led the United States to limit United States exports to China of supercomputers, satellites and parts, and missile technology. Why is our most favored trading partner-stockpiling weapons? For what reason is China moving nuclear related materials and technology to Pakistan? Needless to say these were some very unsettling events that took place in the early months of 1996. Actions likes these could very well be reason alone for China to lose its most-favored-nation trade status. But yet they were allowed to keep it.

The United States Customs Service has found evidence on multiple occasions that China has attempted to circumvent or otherwise break United States textile quotas laws. This was done by transshipping Chinese products through other countries to the United States by the use of false country of origin labels. Another method was the misclassification of textile and apparel products. The United States Customs Service estimates that such transshipments and other circumvention methods may total up to two billion dollars each year. In addition, the United States has charged that certain Chinese entities have sought to avoid United States tariffs by undervaluing textile and apparel shipments

On January 6,1994, the United States announced that a large reduction of 25-35% below the 1993 level of China’s textile and apparel quota would result due to China’s refusal to accept anti-circumvention provisions in a new textile agreement. The new quota levels were set to take effect on January 17, 1994. However, on that date, the United States and China came up with a new textile agreement that would effectively reduce the growth rate of China’s textile exports to the United States by allowing United States to significantly reduce China’s quotas if China violates the agreement through transshipments. Charges by the United States Customs Service of illegal transshipments by China have led the United States on separate occasions since the signing of the agreement to reduce China’s textile and apparel quotas on specific products. The most recent incident occurred on September 6, 1996, when the U.S.T.R. announced that the United States would impose a $19 million dollar punitive charge against China’s 1996 textile quota allowance due to China’s repeated violations of the United States-China textile agreement dealing with illegal transshipments. China in turn has threatened to fight back by imposing restrictions on the importation of certain United States products.

I can only begin to imagine the great cost that it takes on a yearly basis to keep a watchful eye on the export practices of the Chinese textile and apparel industries.

As if the problem of Chinese textile and apparel exports were not bad enough already there is information that would led to cast an even darker shadow on this portion of the Chinese economy. It is believed the use of forced labor is widespread and a long-standing and accepted practice in many parts of China. Evidence leads us to believe that China might be using forced labor on a large scale in hopes to increase its exports, and a significant number of these products may be for the United States. I have a problem with making people work against their will. I just think that it is just another form of slavery, and at all cost the United States should try to limit its dealing with nation who use economic practices that involve forced labor of any kind.

Another problem with the Chinese exporting goods that may be produced in a forced labor environment is that it not legal. United States law prohibits importing goods or other commodities from any country produced through the use of forced labor, although getting actual proof of violations for certain imported goods is and will remain to be a very large challenge.

In 1994 despite supposed violation, China?s most-favored-nation trade status was renewed. The renewal of China?s most-favored-nation trade status came with the ideal in mind that China would follow the guidelines on the use of prison labor that it had agreed to two years before. In 1996 it was said that the progress that China had made in reducing the exports produced by prison labor export was good enough to warrant the renewal of most-favored-nation trade status. Only two years later the United States Customs Service confirmed that an iron firm in China had been using prison labor and then illegally exporting their product to the United States. As a result the United States Customs Service placed a important restriction on all product from that iron.

So what does this mean? As I have shown cases where China does not follow rules that are to govern its most-favored-nation trade status, nothing more than a fine or non-acceptance of their product ever happens. I cannot say that I really see the point of the United States having some of the laws that it does. Laws are written and then when they are broken they are not enforced to the severity to which they were broken. China is being treated like it has unconditional trade status. As of the last time I checked China has most-favored-nation trade status that is still very much conditional on many things. And it would appear that on more than one occasion the United States has caught China breaking laws, rules, or other governing factors that should at least result in some type of economic sanctions. But what happens is that every time that China?s most-favored-nation trade status comes up for vote they campaign really hard to convince us that they are really work to try to improve the condition of their nation. So what ends up taking place is that when the United States tries to follow through with China?s punishment for doing something wrong they then make threats to turn it all around and counter attack us. We try to enforce agreement that they have signed and we end up in an economic power play. To solve this one of several things needs to happen. First, just accept the fact they were caught trying to sneak around United States Customs laws and take the according penalty. Second, the United States must sticks to the agreement and pacts that it has made with China. When a violation is committed the United States just does what it should do by fining or posing other such penalties for that said action, and it does not worry about the possibility of counter threat from China. Third, would be to just step back from a crack down of Chinese infractions and rework our foreign trade status policies. In particular, Congress would have to reword or void Title IV of the Trade Act of 1974, commonly known as the Jackson-Vanik Amendment. Which prohibits the President of the United States from granting most-favored-nation trade status to China on a permanent, unconditional basis. Heck, since the United States has not cared enough to pull most-favored-nation trade status from China why not grant unconditional trade status to the People Republic.

I do not know which of the three above ideas is the best, but I do have a very interesting thought about the first one. If the United States is going to stand by and let China break the agreement that we have set then what is the point of having these rules or laws in the first place? If we can accept the fact that China is breaking our laws then we can also understand that this behavior can very well lead to a state of anarchy and lawlessness. These are all things that are breed by a lack of law, and also facilitated by a lack of proper enforcement of our current laws. This is a warning also for the future as we show China that the United States will not stand for the flagrant breaking of its laws.

United States policymakers employ economic sanctions not only to equalize trade and investment disputes, but also to reach non-economic policy objectives. This has been especially true with respect to China. Currently, the United States imposes the following economic sanctions on China. Restrictions on export licenses are things that the United States may deny if it was determined that the product could make a direct and significant contribution to the development of nuclear weapons and their delivery systems, electronic and submarine warfare, intelligence gathering, nuclear power projection, and air superiority. This restriction was placed on China on November 23, 1984. Another restriction placed on China dealt with the withholding of generalized system of preferences status. Section 502(b)(1) of the Trade Act of 1974 prevents the President of the United States from designating any developing country as ?dominated or controlled by international communism? as a beneficiary of tariff reductions under this program. This restriction took place on January 1, 1976. Section 902 of the Foreign Relations Authorization Act for Fiscal Years 1990 and 1991 deals with the suspension of nuclear trade and cooperation with China. This sanction was set on February 16, 1990 and may be lifted if the President determines that China is making political reforms that reduce oppression of the people of Tibet. On June 5, 1989 President Bush suspended government-to-government and commercial arms sales to China. Also in June of nineteen eighty-nine President Bush directed the United States directors at the World Bank and the Asian Development Bank to seek postponement of new multilateral development bank loans to China. The Suspension of Overseas Private Investment Corporation (OPIC) and Trade and Development Agency (TDA) activities took place on February sixteenth nineteen-ninety. Section 902 of the Foreign Relations Authorization Act for fiscal year 1990 and 1991 expressed suspension of first the granting of O.P.I.C. insurance, reinsurance, financing, or guarantees to China and second the obligating of T.D.A. funds for new projects in China. This sanction is not unlike many others placed against China, in that it may be lifted if the President of the United States determines that China is making political reforms in Tibet. In addition Section 902 of the Foreign Relations Authorization Act for Fiscal Years 1990 and 1991 talks about the prohibition of the export of items on the Munitions Control List, and of United States satellites. This sanction placed in February of 1990 can be lifted if political conditions improve between China and Tibet. Another restriction placed on China by the United States on February 16, 1990 dealt with the prohibition of export licenses for crime control and detection equipment. This is among the long list of restriction placed against China in the fiscal year of 1990 in hopes to get China to change it political attitude towards Tibet.

Again there is more mention of restriction against certain imports produced by prison labor. The Customs Bureau has enforced Section 307 of the Tariff Act of 1930, which forbids imports made by forced of prison labor goods. Examples pf such forced labor are diesel engines manufactured by the Golden Horse Diesel Engine Factory, March twenty-third nineteen ninety-two; tea grown by the Red Star Tea Farm, July thirteenth nineteen ninety-two; sheepskin and leather processed by the Qinghai Hide and Garment Factory, July thirteenth nineteen ninety-two; and again iron pipe fittings manufactured by the Tianjin Malleable Iron Factory, April 29, 1996. On May 28, 1984, restrictions on the importation of Chinese munitions and ammunition.

In conjunction with the 1994 annual renewal of China’s most-favored-nation trade status, United States President Clinton prohibited the importing of arms and ammunition from the Peoples Republic of China. These are only some of the many economic restriction that have been placed against the People?s Republic of China. Talk about a very complex system of checks and balances, used to keep the economic practices of China under control.

In Conclusion, it should now be obvious that the issues around China?s most-favored-nation trade status are both very complex and multi-dimensional. I have mearly tried to provide the issues on both sides of the debate that surrounds the China?s most-favored-nation status. By giving stats and other figures that show just how this issue has the ability to effect the economies of both the United States and China.

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