

foreign policy *in focus*



Interhemispheric Resource Center
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U.S. China Policy: Trade, Aid, and Human Rights

Since the initial warming of U.S.-China relations in the early 1970s, policymakers have had difficulty balancing conflicting U.S. policy concerns in the Peoples' Republic of China (PRC). From Nixon to Clinton, presidents have had to reconcile security and human rights concerns with the corporate desire for expanded economic relations between the two countries.

In 1989 the Tiananmen Square Massacre drew public attention to the inconsistent, unintegrated character of

Key Points

- Critics do not want U.S. economic interests to overshadow human rights concerns.
- MFN treatment and support for China's petition to join GATT/WTO are important elements of a comprehensive engagement policy.
- U.S. businesses are eager to increase participation in what the Commerce Department describes as the world's largest emerging market.

U.S.-China policy. A wave of public indignation with China's repressive practices forced the Bush administration to adopt a sterner posture in regard to human rights violations and to apply certain unilateral sanctions. Weapons exports to China were prohibited, nuclear energy cooperation ceased, export licenses for crime-control equipment were withheld, and Overseas Private Investment Corporation (OPIC) and Trade Development Agency (TDA) business assistance programs in China were legislative-

ly suspended. Many academic and cultural exchange programs were also canceled.

These measures have not satisfied some critics of China's human rights practices, who contend that the U.S. should apply even more rigid trade restrictions against China. Specifically, critics insist that the U.S. government not renew China's Most Favored Nation (MFN) status. Since 1980 China has enjoyed MFN status, meaning that its exports to the U.S. fall under the most common U.S. tariff schedule. All signatory nations of the General Agreement on Tariffs and Trade (GATT) and members of the World Trade Organization (WTO) have MFN status. The only nations that do not benefit from MFN treatment are Afghanistan, Cuba, Kampuchea, Laos, North Korea, and Vietnam.

MFN status for China is conferred through an annual

review process. Some human rights advocates argue that MFN standing should be linked to improvements in China's human and labor rights practices—a policy that has been rejected by the Clinton administration. Rather than denying China normal MFN trading status because of human rights violations, the Clinton administration has opted for a policy of “comprehensive engagement,” which holds that long-term U.S. goals such as human rights improvement are more likely to be achieved through sustained contact and open trading than by further isolating China.

Besides conferring MFN status, the U.S. also supports China's petition to join the WTO. This support is contingent on China's continuing willingness to negotiate broader market access and to respect the intellectual property rights of U.S. firms. U.S. traders and investors are eager to expand their economic participation in the country the Commerce Department describes as the world's largest emerging market. In 1995 U.S. firms had investments in 3,474 different projects in China, many of which concern export-oriented production using low-paid, oppressed Chinese labor that is denied the right to form independent labor unions. After Hong Kong, the U.S. is the second largest source of contracted foreign direct investment for China; China is the second largest host country in the world, following the U.S., for foreign direct investment (see *In Focus: Foreign Investment in the U.S.*).

Although China's market is immense and expanding, at least in the short and medium terms it is likely that China will continue to enjoy large trade surpluses with the U.S. Trends indicate that the U.S. trade deficit with China may soon surpass the deficit with Japan. Most U.S. transnational corporations (TNCs), many of whom are investing directly in China, support current U.S. trade policy. Yet other elements of the U.S. business community that are affected adversely by Chinese exports, in particular small domestic businesses, have joined with human rights critics to oppose the annual renewal of China's MFN status.

Under pressure to integrate human rights concerns more closely into overall U.S.-China policy, Washington has adopted a number of sanctions, including restrictions on bilateral and multilateral aid. Rather than conditioning trade relations on human rights improvements, the Clinton administration has argued that increased economic integration of China into the world market is the preferable and more effective way of advancing human rights (see *In Focus: Protecting Human Rights*).

Yet Chinese human rights practices, including respect for political and labor rights, continue to fall well below internationally accepted standards. Neither the existing U.S. sanctions nor the policy of comprehensive engagement has resulted in human rights improvements.

The U.S. government does have a number of measures in place designed to induce human rights reforms in China. But these are limited and in some cases not fully implemented. Although OPIC and Trade Development Agency programs were suspended after the Tiananmen Square Massacre, other U.S. agencies remain engaged in China, thereby sending China mixed signals about the seriousness of U.S. human rights concerns. Eximbank, which provides loan guarantees for U.S. exports, has expanded its commitments to China trade since 1989. The bank has even given preliminary approval to a plan by Westinghouse to sell nuclear energy technology to a Chinese state enterprise that has sold nuclear-weapons related technology to Pakistan and Iran.

Following the 1989 massacre, the U.S. and other industrial nations placed a moratorium on new World Bank lending to China. In February 1990 U.S. voting policy with respect to World Bank lending relaxed when the U.S. resolved to approve new loans to China if they were directed at meeting "basic human needs." China is the largest recipient of World Bank loans.

The U.S. government has not used its extensive influence at the World Bank to escalate international pressure on China to improve its human rights practices. In the case of neighboring Myanmar (Burma), where U.S. economic interests are comparatively insignificant, the United States endorses a ban on all World Bank lending. In China, however, where human rights violations are no less severe, Washington has not obstructed the

rapid rise of bank lending. Occasionally, the U.S. casts a "no" vote on an infrastructure project in accordance with its commitment to support only basic needs projects. More often, the U.S. simply abstains, thereby allowing projects to proceed.

Furthering the inconsistency, the U.S. has actively opposed the rise in China funding by the Asian Development Bank, in which it is the second largest shareholder. Corporate interest in China trade and investment help explain the U.S. government's reluctance to support a ban on multilateral lending to China. U.S. corporations are the top suppliers for World Bank projects in China.

After its 1994 delinkage of human rights issues from China's MFN status, the Clinton administration announced the creation of a special human rights program that included promises of increased Radio Free Asia broadcasts to China, new support for NGOs working in China, and the formulation of a corporate code of conduct for companies doing business in China. The program, which has only been partially implemented, exerts little pressure on China and should not be regarded as an effective substitute for a tougher U.S. stance on human rights violations. The voluntary and unspecific character of the code of corporate conduct that the Commerce Department formulated is typical of U.S. unwillingness to endanger trade and investment in China. In the end, rather than making the code more China-specific, Commerce announced that the code was a loose and nonbinding list of suggestions for TNCs (see *In Focus: The U.S. and TNCs*).

Trade and investment concerns have knocked U.S.-China policy out of balance. Despite expressions of concern for human rights conditions, the U.S. government has allowed narrow economic interests, particularly those of corporate investors, to guide its China policy. Although the U.S. government has let it be known that human rights improvements would be welcome, it has been unwilling to jeopardize U.S. economic relations by adopting stricter human rights conditionality on aid and trade.

Key Problems

- Neither existing sanctions nor comprehensive engagement has resulted in human rights improvements.
- Measures adopted following Tiananmen Square are limited and in some cases not fully implemented.
- Despite its failure to respect human rights, China is the largest recipient of World Bank funds.

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The U.S. government needs to put its U.S.-China policy in balance by giving labor and human rights concerns more attention. At the same time, however, the delicate matrix of U.S.-China relations requires that special care must be taken to select the most appropriate policy tools.

The Lawyers Committee for Human Rights offers four general principles that should guide U.S. policy toward human rights and would be helpful in establishing a new U.S.-China policy:

1. U.S. national interests are served by giving human rights a higher priority in the U.S. foreign policy process.
2. U.S. human rights policy should be based on internationally recognized laws and norms.
3. The credibility of any human rights policy stems from its uniform application.
4. Cooperative, international approaches to human rights problems are preferable to strictly unilateral actions.

Key Recommendations

- U.S. human rights policies should be uniformly applied.
- Multilateral responses to human rights practices are preferable to unilateral actions.
- More attention to human rights would help balance U.S.-China policy.

The principles of uniform application and the preferability of multilateral approaches are especially relevant to selecting the most appropriate and effective measures to promote human rights in China. With respect to trade, a key question is whether the U.S. should attach human rights conditions to the continuation of normal trading relations with China.

The outright denial of MFN status and opposition to China's access to the WTO because of its human rights record would render U.S. human rights policy more inconsistent than it already is. The MFN standing of other nations is not subject to annual human rights review. It is true that "comprehensive engagement" has not proven effective, but there is no reason to believe that by isolating China the U.S. could positively influence Chinese human rights practices. To create a more balanced U.S.-China policy, the U.S. government should strive to identify policy mechanisms that are assertive but not unilaterally aggressive.

More appropriate than MFN termination are policy measures associated with preferential trading agreements (where special trading privileges going beyond MFN status are granted) and with economic assistance.

An across-the-board U.S. termination of bilateral financial assistance to China and support only for multilateral loans that help satisfy basic human needs would result in increased pressure on China to improve its human rights practices. Given the deepening Chinese dependence on the world market and on U.S. investment and trade, it is unlikely that China would react to the aid ban by unilaterally ending trade and investment with the U.S. and other involved nations.

Specifically, we recommend the following actions:

- The U.S. should not single out China, but instead condition all its bilateral and multilateral trade and investment programs on respect for internationally recognized labor and human rights.
- China's application for WTO membership underscores the need for international agreements that link trade privileges with respect for basic human rights. Just as environmental protection and trade need to be linked, so do trade and internationally recognized labor and human rights. As a global leader, the U.S. should use its influence to urge that human rights conditions be included in international trade and investment agreements such as GATT.
- Section 701 of the Foreign Financial Assistance Act, which mandates the U.S. government to advance international human rights through its voting power in international financial institutions, should be enforced. Until there are significant human rights improvements, the U.S. should oppose all multilateral lending (except for basic humanitarian aid) to all human rights violators..
- Washington should make its bilateral aid policy more consistent by blocking all further Eximbank lending and by ending all nonhumanitarian programs that benefit China.
- The U.S. should make greater use of its senior level contacts with the Chinese government to raise pressing human rights concerns.
- The U.S. should encourage other nations to take a firmer stance toward human rights violations in China and increase its own diplomatic efforts to raise these issues in such international forums as the Human Rights Commission and the International Labor Organization.

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sources for more information

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Department of State

<http://dosfan.lib.uic.edu/dosfan.html>
• *Country Reports on Human Rights Practices*
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