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SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

WRITTEN COMMENTS

ON

CHANGE IN "MOST-FAVORED-NATION" TERMINOLOGY

March 11, 1997

Printed for the use of the Committee on Ways and Means by its staff

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ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
July 16, 1996
No. TR-28

CONTACT: (202) 225-6649

Crane Announces Request for Written Comments on Change in "Most-Favored-Nation" Terminology

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee is requesting written comments concerning changing the terminology "most-favored-nation trade treatment" in order to reflect more accurately the nature of the trade relationship in question.

In announcing the request for comments, Congressman Crane stated, "The term 'most-favored-nation' is quite misleading because it implies that we are extending benefits that are greater than the normal tariffs we extend to our trading partners under the World Trade Organization. However, we seek to do no more than to extend the same benefits as those we extend to other market economy trading partners."

BACKGROUND:

Most-favored-nation, or non-discriminatory, trade treatment has its origin in international commercial agreements, whereby signatories extend to each other treatment in trade matters that is no less favorable than that accorded to a nation which is the "most favored" in this respect. The effect of such treatment is that all countries to which it applies are the "most favored" ones; hence, all are treated equally.

In the context of U.S. tariff legislation, most-favored-nation treatment means that the products of a country given such treatment are subject to lower rates of duty (found in column one of the Harmonized Tariff Schedules (HTS) of the United States), which have resulted from various rounds of reciprocal tariff negotiations. Products from countries not eligible for most-favored-nation treatment under U.S. law are subject to higher rates of duty (found in column two of the HTS), which are essentially the rates of duty enacted by the Tariff Act of 1930.

Under current U.S. law, only seven countries are subject to column two treatment: Afghanistan, Cuba, Cambodia, Laos, North Korea, Serbia and Montenegro, and Vietnam. The remaining U.S. trading partners are subject to either conditional or unconditional most-favored-nation.

FOCUS OF WRITTEN COMMENT:

The Subcommittee requests comments concerning whether there is a need to change the terminology "most-favored-nation" and, if so, what the nature of the change should be. The Subcommittee requests that the comments address whether a particular approach minimizes confusion in changing current U.S. statutes, complies with U.S. obligations under international agreements, and more effectively informs the public as to the true nature of the trade relationship being addressed. One possible approach includes H.R. 3622, introduced by Congressman Dick Chrysler (R-MI) on June 12, 1996, which would substitute "standard trade treatment" for "most-favored-nation" and "non-discriminatory treatment" and would make out of order the consideration of any legislation or action which contains any provision referring to "most-favored-nation" or "nondiscriminatory treatment" with respect to the tariff treatment of products of a country. The Subcommittee welcomes comments on this proposal and on any other suggestions that the public believes may be appropriate.

DETAILS FOR SUBMISSION OF WRITTEN COMMENT:

Persons submitting written comments should submit six (6) copies, with their address and date of request noted, by the close of business, Thursday, August 1, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

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American Association of
Exporters and
Importers
11 West 42nd Street, New York, NY 10036 (212) 944-2230

The American Association of Exporters and Importers (AAEI) is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers.

Most-favored-nation trading status is the cornerstone of normal commercial trading relationships with countries worldwide. AAEI agrees that the term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most countries, maintains two complete tariff schedules -- one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products. Therefore, the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI supports any change in MFN terminology, whether substantive or symbolic, that will work towards expanding the overall concept of permanent MFN. As an association of free traders, our members and their counterparts overseas clearly understand the underlying concept and usage of MFN, despite the misleading nature of the vernacular. Prior to instituting a terminology change, perhaps it would be advisable to conduct a study examining the costs inherently associated with such a revision. For example, we must consider the costs to the U.S. as well as our trading partners in conforming existing treaties, statutes, contracts and business practices to accommodate new nomenclature

As previously stated, the international business community has a firm grasp of the well-established principle that underlies the concept of MFN. We recognize, however, that other parties, particularly those whose support is necessary to back an expansion of MFN or extension of permanent MFN, might be led astray by the outdated terminology. AAEI endorses moving towards an expansion of the tenet of permanent MFN, conditioned of course, on the maintenance of basic, reciprocal trade relationships (within the framework of the WTO) between countries. MFN is the foundation for long-term, stable bilateral relationships with our trading partners in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long-run plans, saddling U.S. trade and investment with a risk factor cost not faced by our international competitors.

With regard to China, AAEI has always supported initiatives by the Administration and Congress to grant MFN status on a permanent basis and has urged serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives in China or anywhere else. AAEI supports U.S. human rights objectives and believes that support for these objectives should not be limited to trade issues.

In sum, AAEI would like to see a continuing trend of MFN evolving, as appropriate, into permanent MFN. We recognize that the means to this end might begin with a symbolic change in the language used to denominate the doctrine of MFN. Provided a terminology change does not create unduly costs and burdens on the U.S. and our trading partners, AAEI supports the revision and sees it as an important step in eliminating the obstacles to the MFN process.

The American Association of Exporters and Importers wishes to thank Chairman Crane and the Subcommittee on Trade for this opportunity to present the views of our membership on this important issue.

THE AMERICAN
CHAMBER OF COMMERCE
IN HONG KONG

美國商會

Changing MFN terminology

The Issue

Most-favored-nation (MFN) is the normal, non-discriminatory tariff treatment that the United States provides to all but a handful of its trading partners on a reciprocal basis. The term "most-favored-nation" is a misnomer in that virtually all of the world's trading partners enjoy it. For this reason, the Subcommittee on Trade of the Committee on Ways and Means has requested comments concerning H.R. 3622, introduced by Congressman Dick Chrysler (R-MI), which would properly re-label MFN.

Position

MFN SHOULD BE RE-LABELED TO ACCURATELY REFLECT THE TRUE NATURE OF U.S. TRADE RELATIONSHIPS

Rationale

MFN terminology is misleading because it implies a special privilege. In reality, MFN is the universal principle for multilateral trade and the normal basis for bilateral relations.

- **MFN is misleading.** "Most-favored-nation" terminology implies that a country enjoys benefits that are greater than the normal tariffs extended to other trading partners. In reality, by granting a country MFN, the United States simply provides the same benefits as those extended to its other trading partners.

- **MFN is a misnomer.** "Most-favored-nation" status is a historical anomaly dating from the colonial era. In current trade and geopolitical relations, MFN is a nearly extinct category. Furthermore, in the absence of the Cold War strategic framework, MFN terminology should be properly re-labeled to describe its actual objective: a foundation for basic international commercial relations.

- **MFN is not accurate.** New terminology would more effectively inform the public as to the true nature of the trade relationship being addressed. It would also help to inject a greater degree of accuracy into the premises governing debates over whether certain countries should continue to enjoy such trade relations.

- **MFN is confusing.** New terminology would help minimize confusion in changing current U.S. statutes. It would also help to make order of the consideration of any legislation or action which contains any provision referring to "most-favored-nation" and "non-discriminatory-treatment" with respect to tariff treatment of products of a country.

August 1996

1030 SWIRE HOUSE, HONG KONG. TEL.: 2526 0165 TELEX: 83664 AMCC HX FAX: 2810 1289, 2596 0911
KINDLY REPLY TO GPO BOX 355, HONG KONG.

Emergency Committee for American Trade 1211 Connecticut Ave. N.W. Washington, D.C. 20036 (202) 659-5147

WRITTEN COMMENTS OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE TO THE HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE ON CHANGE IN "MOST-FAVORED-NATION" TERMINOLOGY

The following comments are submitted on behalf of the Emergency Committee for American Trade in response to the request of the House Ways and Means Trade Subcommittee for written views regarding proposals to change the term "most-favored-nation" (MFN) to more accurately reflect the nature of the trade relationship in question.

Concern has been raised that in extending MFN treatment the term implies that we are providing preferential trade treatment. This concern was raised most recently in the debate over continuing the extension of MFN treatment to China.

Nondiscriminatory MFN treatment is a fundamental concept in international trade with a common meaning which is deeply embedded in international agreements and U.S. law. Rather than connoting any form of special trade treatment, throughout its long period of use the concept of MFN has been understood to simply mean that a nation will provide another nation trade treatment which is no less favorable than that given to any other nation. The concept of MFN is universally understood to mean a guarantee of nondiscrimination and equal treatment, not a promise of special treatment.

The MFN principle of nondiscrimination is a basic principle of the General Agreement on Tariffs and Trade (GATT) rules now incorporated within the World Trade Organization (WTO). Pursuant to Article I of the WTO, the goods of member countries must be given treatment which is no less favorable than that given to any other WTO member country. This MFN principle is also found in numerous other clauses within the WTO rules.

The United States has followed the MFN principle of nondiscrimination since its earliest trade agreements and the principle has been long enshrined in U.S. law. Currently, pursuant to section 126 of the Trade Act of 1974, any duty or import restriction proclaimed pursuant to a trade agreement must apply on a non-discriminatory basis to all foreign countries except as provided by law.

In light of the fact that MFN is such a fundamental part of international trade agreements and U.S. law, and is commonly understood as requiring non-discrimination and equal treatment rather than special trade treatment, we suggest that any legislation proposing a change in terms also reiterate continued strenuous U.S. support of nondiscrimination and equal treatment in international trade. Specifically, if a change is considered such as that proposed by Congressman Chrysler in H.R. 3622 advocating the use of the term "Standard Trade Relations" or any other proposed replacement for the term "Most-Favored-Nation" treatment, we urge that:

(1) it be made clear in such legislation that the new term is to have the same meaning as the term "MFN" as it is defined under U.S. law, bilateral agreements, the WTO, and other international agreements, and

(2) the change in terminology should not be construed to in any way diminish or modify the United States' obligations under U.S. law or international agreements to provide MFN treatment.

We thank the Trade Subcommittee for the opportunity to express our views on this issue.

RICHARD A. GEPHARDT
MISSOURI
DEMOCRATIC LEADER

H 204 U.S. CAPITOL
202-225-0100

Congress of the United States
House of Representatives
Office of the Democratic Leader
Washington, DC 20515–6537

August 1, 1996

The Honorable Philip M. Crane
Chairman
Subcommittee on Trade
1136 Longworth HOB
Washington, D.C. 20515

Dear Mr. Chairman.

We are writing to offer our written comments on the question of changing the terminology "most-favored-nation treatment."

The question is an important one. In requesting comments, the Subcommittee's release quotes you as indicating that the term is "quite misleading." We disagree. We believe that changing the terminology of the debate would be misleading.

It *is* preferential status that these countries are receiving—the President must make a special request for these countries to receive their enhanced trading status. Countries receiving most-favored-nation treatment are afforded substantial benefits — often unilateral in nature. As the Congressional Research Service noted:

> "In practice, the principal benefit a country gains from being accorded MFN status by another country is that the latter's imports from the former are dutied at concessional (often referred to as 'MFN', and listed in the tariff schedules as 'General') rather than full rates. Thus, the extension of MFN treatment to a country can often mean a significantly lower cost — and, hence, greater competitiveness — of its products in the extending country's markets."

For example, when the Uruguay Round tariff cuts went into effect, China was unilaterally granted almost $1 billion in annual tariff concessions. The United States did not receive any benefit in return in terms of increased access or reduced tariffs for our exports.

Your comments also indicated that "we seek to do no more than to extend the same benefits as those we extend to other market economy trading partners." China, for example, is not a market economy: it is a communist, centralized economy. While we treat them as a most-favored-nation, we don't receive reciprocal benefits. They should not be granted this preferential status without our farmers, workers, and businesses receiving something in return.

Additionally, Congress should oppose any efforts to restrict our ability to review our trading relationships with any country. Legislation that would restrict the ability of Congress to consider "any legislation or action which contains any provisions referring to 'most-favored-nation' or 'nondiscriminatory treatment' with respect to the tariff treatment of products of a country" would be an abdication of our duties under the Constitution and would simply represent an effort to permanently extend preferential trade status in a backhanded way.

The fact of the matter is that changing the terminology from most-favored-nation would be terribly confusing to the public, would attempt to mask reality, and would be a backdoor effort to grant trade privileges that may not be earned. The unilateral favorable treatment that many MFN designees receive should be the subject of debate, not the terminology of their status.

Sincerely,

Nancy Pelosi

David E. Bonior

Richard A. Gephardt

Marcy Kaptur

Halliburton / Brown & Root
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Washington, D.C. 20036

Larry G. Bowles
Director

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July 25, 1996

Mr. Phillip D. Moseley
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Notice TR-28, dated July 16, 1996, Comment on Change in "Most Favored-Nation" Terminology

Dear Mr. Moseley:

Please consider the terminology "standard tariff status." It is precise as to what the issue is, tariffs, and conveys that there is a standard and that other status is either higher or lower.

The term "standard trade treatment" suggests, improperly, that the issue is one of a myriad of elements that constitute trade terms, rather than the singular issue of tariffs. In an effort to be precise in terms of the unintended implications of whether the status is one of "favored" treatment, please don't substitute terminology that is also imprecise suggesting that the overall issue is one of trade, when it is just dealing with tariffs.

The issue of being precise is not trivial, and those of us that support, vigorously, free and fair trade, know well how terminology that is imprecise can be used to obfuscate and detract from the issue at hand. The Committee, and Chairman Phil Crane, are to be commended for addressing this issue.

Very truly yours,

Larry G. Bowles

Statement by
Stephen E. Lamar*

Before the House Ways and Means Trade Subcommittee

in response to its request for comments on
the term
"Most-Favored-Nation (MFN)" trading status

Thank you for providing me an opportunity to submit a statement on the proposals to modify the term "Most-Favored-Nation" trading status.

As is well-known, the MFN term dates back to the origins of modern international commerce, when nations offered preferential trading status to each other as a way of elevating a particular bilateral partnership above other trading relationships. Quite simply, an MFN relationship meant that one country would offer market access to a trading partner at the best tariff rate it offered worldwide. But while partners to these agreements enjoyed the mutual benefits of lower trade barriers, these MFN relationships existed to exclude other nations from those benefits.

As these MFN relationships proliferated, however, and as multilateral trade regimes, such as the GATT, emerged to govern international commerce, the MFN term grew to embrace a more common concept of non-discriminatory trade extended to a variety of partners. Although it still defined a relationship as the offering of the "best" market access, the MFN term abandoned the implication that such access was unique to a preferential group of trading partners.

Moreover, as the additional preferential arrangements for former colonies and other least developed countries were established -- such as the Lome Convention, the Generalized System of Preferences, and the Caribbean Basin Initiative -- the MFN term has even lost the concept of "most-favored." Many countries, including the United States, now offer access to their markets at rates better than that which is accorded under simple most-favored nation arrangements. As a result, MFN status in the United States is not "most-favored" at all, and, in fact, ranks as the second-to-worst status, just above the handful of countries that do not enjoy MFN status at all.

Clearly, the MFN term, which was once a basis of international trade, has become outdated and even risks undermining the public perception of the merits of liberalized trade.

While popular discussion of a name change has so far centered around the phrases "normal trade relations" and "standard trade relations," the MFN might be more appropriately changed to **"common trade relations,"** or CTR.

By evoking a subjective judgment with the word "normal," the term "normal trade relations" may trigger the same kind of linguistic misunderstandings as the phrase "most-favored." In the recent debate over the extension of China's MFN status, several observers, including the Chairman of this Subcommittee, rightly pointed out that China's

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* Mr. Lamar is Vice President at Jefferson Waterman International, a government relations consultancy firm that advises foreign and domestic clients on US and international trade policy.

trade status was not "most-favored." By the same token, were the debate on extending China's "normal trading relations," opponents could seize upon the term "normal" to complain that alleged human rights abuses and slave labor exports appear to be "business as normal."

The concept of "standard trading relations," while less emotional than the term normal, could elicit similar misunderstandings. In fact, although there is one overriding concept of non-discrimination in the World Trade Organization (WTO), individual countries accede to the WTO after invoking a variety of exemptions, exclusions, and phase-in schedules. As a result, there appears to be little that is "standard" about such trade relations. The problem with China may be instructive in this case as well. As China accedes to the WTO over the next few years, many skeptics in the United States will have to be persuaded that the accession is done on a commercially viable basis. If such accession is accomplished through the expected exemptions, exceptions, and phase-ins that China will surely request, proponents of the accession will have the added challenge of defending how such an accession is "standard." Finally, the acronym for standard trading relations, could cause some confusion with the old, but still often used, acronym for the United States Trade Representative -- the Special Trade Representative (STR).

The term "common," besides avoiding either of the above problems, implies a simpler concept that is more consistent with the way in which non-discriminatory trade relationships are perceived and described. The term "common" suggests "consensus" and "reciprocity" -- two important concepts in international trade -- without requiring sameness. The Random House Unabridged Dictionary defines "common" in several ways, including:

(a) "belonging equally to shared alike by two or more or all in question,"
(b) "joint, united," and
(c) "widespread, general."

Moreover, the term common would also evoke a related concept of the "common market," in which trade, capital, and labor barriers to all participants are removed to foster the free flow of goods and services. In this regard, the concept of common has already established a special, and appropriate, meaning in the terminology of world trade.

Finally, while such a name change may not lead the United States to be more competitive abroad, it may encourage a more favorable view of trade within the United States. The phrase "common trade relations" could easily stimulate the view that non-discriminatory trade relationships are ordinary and commonplace. Calmed by this perception, individual Americans could begin to better understand how international trade benefits their lives.

Thank you.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

WILLARD A. WORKMAN
VICE PRESIDENT, INTERNATIONAL

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August 1, 1996

Mr. Phillip D. Moseley
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Ways and Means Advisory No. TR-28

Dear Mr. Moseley:

The U.S. Chamber of Commerce is pleased to have the opportunity to respond to Congressman Crane's request for comments on the need to change the terminology "most-favored-nation" (MFN) trade treatment. The U.S. Chamber fully agrees with Congressman Crane that the term "MFN" is misleading. MFN refers to the normal, non-discriminatory tariff treatment that the U.S. confers to all but a handful of its trading partners. It means that imports are entitled to Column I tariff rates in the U.S. Harmonized Tariff Schedule (USHTS), which average under 5 percent *ad valorem*. In contrast, for countries without MFN, imports are subjected to Column II (Smoot-Hawley) tariff rates, which average over 50 percent *ad valorem*. MFN status simply ensures that all nations will treat international trade with each other in a reciprocal fashion.

However, MFN, when applied to certain countries, causes a great deal of confusion. The term is a gross misnomer because almost all of our trading partners enjoy it. Only a handful of countries, such as North Korea, Cuba and some former Warsaw pact countries for whom Congress has not yet granted MFN status, are denied MFN status. Additionally, the United States is the only country that subjects some of its trading partners to a yearly MFN review.

The U.S. Chamber applauds efforts by Representative Dick Chrysler and others who are seeking to remedy this misconception through legislation. Representative Chrysler's bill, H.R. 3622, would substitute the term "standard trade relations" in any legislation or action that contains the phrases "nondiscriminatory treatment" or "most-favored-nation treatment." However, given that MFN treatment refers to tariff treatment and not nontariff treatment, we suggest that H.R. 3622 be modified to use the term "standard tariff relations" or "standard tariff treatment" instead.

MFN, or even "standard trade relations" implies that we are dealing with a broad array of trade issues when in fact the terminology in question only applies to the tariff treatment of goods imported by a country. By using the term "tariff" instead of "trade" we can minimize the chance that the terminology might be misconstrued to apply, for example, to intellectual property and other nontariff disputes, or economic assistance granted to foreign governments or foreign businesses.

In short, the U.S. Chamber welcomes Chairman Crane's efforts to minimize confusion regarding the term of "most-favored-nation." We appreciate your consideration of our views.

Sincerely,

Willard A. Workman

THE US-CHINA BUSINESS COUNCIL

Letter from the president

ROBERT A. KAPP
adapted from the March-April 1996
China Business Review

Steady As You Go

Welcome to the tumultuous spring of 1996, a challenging season for the US-China business community and for US-China relations in general. The ark of US-China affairs is being tossed by confusing and conflicting currents. A long list of acrimonious issues confronts us in trade, the nonproliferation field, human rights, and Pacific security affairs.

The task of defining and maintaining a satisfactory overall relationship between China and the United States in the face of the myriad specific irritants is a daunting one. Devotees of "The Relationship" must focus on common US-China goals, aspirations, responsibilities, and interests above the drumbeat of reciprocal annoyance on both sides of the Pacific.

And the smell of domestic politics hangs heavy in the air. Each issue, each clash of press releases, each negotiating deadline in the spring of 1996 is jostled by the positioning exercises of candidates in pursuit of high office and by media with their eye on the big domestic political story of the year.

American businesses engaged with China watch with concern. We have worked extremely hard each spring to defend stable US-China economic relations; this year, it seems, our mission may be even tougher. Political insiders give us conflicting advice: "Stick closely to business topics: you're not qualified to have opinions on anything else" versus "Don't just talk about narrow business topics lest you be disparaged for your narrow materialism." Well, we might as well say what's on our minds; sitting around hoping the storm will blow over isn't going to work. So here are three basic points we should memorize for ourselves and suggest over and over again to others debating US relations with China this year:

■ **MFN=NST, or NO SPECIAL TREATMENT** Say it and remember it. This spring, we must bury yet again the persistent and utterly mistaken notion that "MFN," or Most Favored Nation, trade status is a special gift that favors China. Of course, the truth is the exact opposite. MFN is nothing special. The United States maintains MFN/NST trade with all but a tiny handful of nations (North Korea, Cuba, and a few others) worldwide. It is the wholly ordinary trade treatment the United States and China grant to each other on the basis of a bilateral trade agreement signed in 1980.

The MFN/NST storm in the months to come is expected to be very rough, perhaps the roughest it has been since the Tiananmen disaster. The US-China Business Council will be doing its utmost to defend normal economic and trade relations between the two countries. Can we at least hope that everyone interested in this debate, including every single member of the US Congress, will understand once and for all that ***MFN=NST, or No Special Treatment?***

■ **ECONOMICS: THE ANCHOR** The United States and China continue to face serious disagreements in the economic and commercial sphere. The US business community has been resolute in its determination that US officials pursue vigorously at the government-to-government level the rapid improvement of the Chinese business environment and the elimination of a long list of barriers to the pursuit of business with China.

The business community, however, can also legitimately claim that the record of US-China business progress since the 1970s is the most positive aspect of US-China relations overall. America sells to, and buys

The United States-China Business Council is a private, not-for-profit trade organization founded in 1973. The Council serves as the principal organization of US corporations engaged in trade and investment with the People's Republic of China. With offices in Washington, DC, Beijing, and Hong Kong, the Council provides research and analysis to its 300 member companies, and produces *The China Business Review* and other publications.

BROADER US INTERESTS ARE SERVED BY WELL-GROUNDED US-CHINA RELATIONS.

from, China at great benefit to itself: if the benefit weren't there, the business wouldn't be, either. Moreover, US commercial investments in China are strategic commitments to the long-term future viability of US-based companies and the US global economic position. US exports to China create hundreds of thousands of US jobs. American operations in China contribute quietly but effectively to China's evolution in ways that most Americans would welcome, by encouraging PRC progress toward a market economy, global economic responsibility, and individual opportunity and fulfillment.

Our economic relations with China remain the centerpiece of post-Cold War US-China ties. The metaphor of the anchor is appropriate. The US-China economic relationship holds the ark of our relations reasonably steady. If we sever the anchor chain, we cast the ark adrift. Broader US interests are served by well-grounded US-China relations: the two nations need to cooperate in regional security, scientific and technical interchanges, and other global fields of shared interests. Can anyone seriously maintain that those interests would be better served by the rupturing of normal trade and investment relations? I think not.

■ **TO DEAL WITH THE PRESENT WE MUST TAKE ACCOUNT OF THE PAST** Fierce winds may be blowing our boat about, but this isn't the first storm. The United States and China today are playing out the latest act of a drama that began in the 18th century. If we do not understand the power of that legacy in shaping our course today we will harm ourselves. The problem is not that Washington or Beijing will intentionally equate the present with the past; rather, the danger is that one or both sides will fail to see the longer-term traditions and tendencies that continue to shape our relations today.

For example, what most Americans see as the militant Chinese defense of PRC sovereignty today, in the form of powerful sensitivity to foreign "interference in China's internal affairs," has its roots in the very definition of modern Chinese nationhood. The two great Chinese political forces of the 20th century—the Kuomintang and the Chinese Communist Party—were both predicated on reclamation of China's compromised dignity after a "century of humiliation." Westerners today sometimes have trouble taking this Chinese view seriously, but we ignore such historical legacies at our peril.

Our musings today over the future course of China's development—toward more restrictive nationalism or toward economic cosmopolitanism—have an ancient ring to them. In 1932, only four years after Chiang Kai-shek's army had set up the new National Government in Nanking, the Chinese Communists were largely bottled up in the remote mountains of Jiangxi, and US and other foreign businesses enjoyed special privileges on Chinese soil—privileges that dwarf the reciprocal concessions of today's WTO system. Musing about China's future economic evolution, a now-obscure scholar named Enid Ware noted:

> Where the balance will rest between extreme policies of political nationalism, and economic development and stability, it is, at present, impossible to determine... Details of policies and their effect upon foreign business are alike unpredictable. Will they be governed by the Chinese experienced in business, the moderates, who declare that business knows no national boundaries, who believe that out of business development China will achieve what she wants?.... Here, within China itself, is the conflict between nationalism and party politics on the one side, and the economic well-being of the nation on the other. Will the Chinese cling to politics or will they work out their economic well-being? [*Business and Politics in the Far East* by Enid Ware. New Haven, CT: Yale University Press, 1932.]

The times and the actors were different, but the core concerns 60 years ago have a familiar ring. We are taking part in an evolving encounter with a long history. Progress must be continuous, but without the perspective of time the problems of today can feel more monumental, more colossal, than a longer view might justify.

We hear, this spring, more and more calls for a "fundamental re-evaluation" of US-China relations. Think tanks and public policy associations are turning to major research projects on China's future global role, on the future of US-China relations, and indeed on the nature of US policymaking on China matters. All of this is to the good; US policymaking thrives on free and open (hopefully, thoughtful and well-grounded) discussion. For now, we in the core constituency of contemporary US-China relations need to reiterate these three points:

- MFN=NST — No Special Treatment;
- Economics are the Anchor of the US-China Relationship; and
- To Handle the Challenges of the Present, We Must Keep the Past in Mind.

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