

Memorandum to George Bush, April 2, 1990

China – Game Plan for MFN

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INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: China – Game Plan for MFN

An ugly confrontation with Congress and Beijing awaits us over waiver of Jackson-Vanik for China. We need to move early to signal to China and to the American public your strong commitment to human rights in China before human rights activists and political opponents seize the lead. This

is an opportunity for us to move from defense to offense domestically on China issues, while maximizing incentives for China to take steps in the right direction.

The predicament. Draft legislation in both houses – now stalled – may give the Congress the means for a fast-track joint resolution of disapproval by the time the China waiver goes forward. To continue MFN, the waiver must be sent to the Hill by June 3, the anniversary of Tiananmen.

Good estimates of how the Congress will vote are not yet available; it is too early for them to focus on it. Most staffers say a majority in both houses will be eager to humiliate our China policy, but they probably lack the two-thirds necessary to override a veto of a joint resolution of disapproval. They hope to have it both ways: humiliation of the policy and the trade benefits of MFN with China.

The best way to proceed is to take the offensive vs. both the Chinese and Congress, by taking a position that, under present circumstances, you cannot recommend extending MFN for China. This will anger the Chinese, but force them to face the issue of better relations squarely. It will leave defense of MFN to Congress and the business community.

The Chinese. There are early signs that the Chinese want to help prevent loss of MFN. Chinese steps so far have been small (Peace Corps and Fulbright implementation) and politically useless. Beijing may be willing to do more; we need to encourage *much* more.

Internal leadership tensions and common fear of the masses will lead to compromise efforts to placate you. Beijing will undoubtedly try to delay any actions they may “promise” to take. For example, one PRC Embassy official has suggested that you recommend continuing MFN just before the due date of June 3. The argument goes that China will carry out what we ask for after the June 3–4 Tiananmen anniversary, and before Congress votes. This may be Beijing’s intention, and it may also be a trick. The risk of another battle royal with Congress is too great to follow this approach.

China must face the choice at some point. Either accommodate the people and world opinion and risk downfall, or retreat into greater isolation. The latter tendency is already strong, and doctrinaire leaders will welcome a rupture with the U.S., perhaps believing they can get what little they think they need from the rest of the world.

A key point on which public debate here over MFN will turn is whether to retaliate and squeeze China for its human rights offenses and bad international behavior or work to strengthen the forces of economic growth and reform. Over the next two months, anniversaries and dissident tactics will continue to have the regime seized with fright and ruthlessly determined to crush dissent. Therefore, it will be important not to get ourselves into defending China's record or otherwise get put on the defensive over what happens in China. In fact, we will want to be seen as actively interested in the human rights of the Chinese people and working against irresponsible Chinese behavior abroad.

Why MFN for China? The primary case to make for MFN for China is *economic*. Two-way trade last year was \$17.8 billion, of which U.S. exports were \$5.8 billion. If MFN is lost, China will retaliate against every American exporter who has competition on the world market. (The U.S. is the only country with MFN legislation like Jackson-Vanik.) Foreign Minister Qian has also threatened major "retrogression," probably meaning at least downgrading relations to the charge level. (Of course, the flip side of the trade figures is that loss of MFN should remove the \$7-8 billion trade deficit from the U.S. account.)

CIA calculates that loss of MFN would cost China significantly more than \$2.5 billion in export earnings immediately, and the Chinese would seek to impose a similar cost on U.S. exporters. Beijing has increasingly centralized trade authority since Tiananmen, so it has the tools. Loss of MFN would probably strengthen the voice of hardliners who seek further recentralization. This could make eventual restoration of reforms and opening to the outside world all the more difficult.

Joint ventures in China, such as Beijing Jeep, will have exorbitant duties imposed on equipment needed to operate the ventures; they will fail. Our competitors in trade and investment will be the immediate beneficiaries.

Moreover, the extremity of the consequences of withdrawal of MFN will tempt the G-7 to break ranks on other issues such as the current limits on World Bank lending to China. Our human rights legislation will not permit us to vote for the loans, but with any G-7 country voting for World Bank lending, the loans may go through. If they do, Congressman Obey has threatened to withhold IDA replenishment, which in turn will lower the U.S. voting share below the current 15.5% and lead to loss of a U.S. veto on certain matters concerning the Bank.

A second reason for MFN is *Hong Kong*. Loss of MFN would threaten to rupture many of the economic links through the colony. Unemployment will climb dangerously in South China, and substantially in Hong Kong, where \$5.5 billion of Chinese goods are reexported. U.S. investors in Hong Kong are already seeking legislative help to restore confidence among their Hong Kong white-collar employees; loss of MFN will wipe out any such effort.

Concerns about the future of Hong Kong should help to sustain China's MFN. Congressmen Solarz and Porter, for example, take a strong interest in both human rights in China and Hong Kong's future. Importers in Solarz's district have complained when he has threatened MFN.

The third argument is *human rights and the well-being of the people of China*. Since you first articulated your sanctions against China, you have insisted on trying not to hurt ordinary Chinese people, on keeping a line out to those with an interest in opening and reform. You will be questioned on how to reconcile your desire to avoiding hurting the Chinese people with not supporting MFN. One answer is to throw back the question by asking how can you help the people of China when your efforts on behalf of the relationship are taken by Beijing as endorsement of its current behavior.

The opponents of MFN. The China-watching community in the U.S. has been traumatized by the repression since Tiananmen. They are hurt, angry and vengeful as a group. Like many ordinary Americans and Chinese students here, they believe the collapse of the Chinese regime is just a shove away, a la East Europe. Frankly, many are also outraged by their perception of the two trips to China last year and the Pelosi veto. They believe, paradoxically, that the Administration should be made to squirm over MFN, yet you should not be so “irresponsible” as to let a resolution of disapproval stand. There are a few exceptions, especially in Washington and among those with policy experience. (The Chinese-American community is also traumatized, but not for the first time, and so is much more inclined to favor continued MFN. Many Chinese-Americans, of course, also have business interests in China, but their human rights interests are no less genuine.)

Human rights activists have energy to spare following the developments in the Soviet Union and East Europe. China has rapidly become the test case for many as to how this Administration stands on human rights. They particularly like China because it is easy to make the Administration look bad. Naturally, adversaries on the Hill will exploit this to the extent their constituents permit.

What to do? First, the Chinese will need to be told quietly that under present circumstances, you cannot recommend that MFN be retained. We should not go public with this for a week, as Beijing will be somewhat more responsive if it is not publicly backed into a corner at the outset.

We also need to get you on record as much as possible favoring advancement of the human rights of the Chinese people. A speech on Asia which touches on the subject would help. China also needs to hear you speak firmly on proliferation of missiles.

As outrages occur during the spring anniversary season in China, we should modestly escalate our rhetoric of condemnation. This will run against instinct, but even the Chinese will understand (though not agree) if they see the rhetoric protecting the policy.

If Congressional support for MFN manifests itself, when the waiver is sent to the Hill, its text will require close attention to the human rights potential of continued MFN and the costs of its loss. Critics will point to new restrictions on study abroad imposed since the Pelosi veto to embarrass you and to block MFN, on the narrow Jackson-Vanik grounds of restrictions on emigration. There is potentially some flexibility on this point – based on compulsory national service precedents – but not much, and the Chinese should be pressed to change the regulations.

More importantly, we need to jolt allies of the MFN in the business community to carry on a campaign in the Congress. So far, business people appear reluctant to take up China with their senior management, let alone with Congress, but for some companies the numbers in the China trade are very large.

Options. In the end, your options boil down to the following:

- Threaten to let MFN lapse. You could blame China for the chill in relations. China will be reluctant to respond as fully as is necessary, but pressure will build for China to recognize the realities of the situation. You will be criticized for “irresponsibility” by the business community and some foreign policy observers and modestly praised for yielding to the human rights activists, but you have a chance at generating support for your management of China policy.
- Send the MFN waiver, but not fight for it. Say it is up to Congress to decide. This may amount to turning China policy over to the legislative branch, if we are not successful beforehand in getting the Hill to decide to support MFN.
- Prepare for another fight over your right to conduct foreign policy by signaling an intention to veto. Given the way China has reneged on the scorecard of positive steps since the Pelosi veto fight, we will need maximum help from the business community, which of course will be reluctant to be seen publicly trying to stay in China.

For the time being, we are publicly characterizing you as not having addressed the issue yet. In talks with trade groups, my staff has found

that business people become energized when they hear that your veto of a resolution of disapproval is not guaranteed.

CC. Vice President
Chief of Staff

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