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THE CHINESE UNIVERSITY OF HONG KONG

BEYOND CONTAINMENT: MARKET DERIVATION OF
U.S. FOREIGN POLICY TOWARD CHINA

A DISSERTATION SUBMITTED TO
THE GRADUATE SCHOOL
IN PARTIAL FULFILMENT FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY

DEPARTMENT OF GOVERNMENT AND PUBLIC
ADMINISTRATION

BY

GORDON C. K. CHEUNG

HONG KONG

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SUMMARY

This study analyzes the exogenous effect of the market force of U.S. foreign policy toward China. In this study, I put forward the idea of Augmented Market Liberalism (AML), arguing that the establishment of the market economy was induced by U.S. foreign policy. During the Cold War, U.S.-China relations witnessed the change from containment to a strategic triangle relationship and from normalization to rapprochement. The U.S. market force imperative was first applied to the encroachment of Japan, economically and politically, to transform its society immediately after World War II. Then, the magnitude of the U.S. market force moved to the embankment of the Four Little Dragons, changing their nature and course of economic development. During the Cold War it was understood that they were containment shields. However, they were also models and agents for the market-oriented policy of the United States toward China.

The facilitation of the U.S. policy of AML toward China was less successful in the 1950s and the 1960s. China's internal economy was strongly clouded with Mao's ideology based on struggle and socialism. International politics were greatly shaped by the fear that encircled the world economy during the Cold War. Nevertheless, Nixon's visit to China in 1972 can be interpreted as an imperative of the market force. The findings of market ingredients in Nixon's visit enable us to move beyond the general analysis of so-called strategic triangle relations. China's application to become a member of the General Agreements on Tariff and Trade (GATT) or the World Trade Organization (WTO) strongly suggest that China's developmental process was embodied in the changing world economy of which the U.S. has been the major facilitator.

The post-Cold War saw the U.S. policy of engagement and enlargement toward China. Interestingly, it witnessed policy divergences together with policy convergences. On the one hand, intellectual property rights (IPR) disputes, Taiwan and MFN status became the bones of contention. On the other hand, their policy convergences were embodied in China's involvement in the world economy, the U.S. monitoring of China in the world economy and China's role in the Third World. In fact, the market economy has become China's policy orientation in her future development because the pattern of market behavior gives rise to access to opportunity, enlargement of goals, growth through production and consumption and the manifest orientation that envisioned change.

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PREFACE AND ACKNOWLEDGEMENTS

U.S.-China relations are a controversial topic by definition. The countries not only represent two of the largest powers in the world but also stand for two different ideologies in world politics. During the Cold War, their relations witnessed the change from containment policy to a strategic triangle and from normalization to rapprochement. There was ongoing military confrontation between the U.S. and China, first the Korean War and then the Vietnam War. Yet in terms of foreign relations, these terms and analyses, focused on military and confrontational angles, explain only part of their relations. An important ingredient - market force - deserves much attention if one wants to have a more balanced view of their relations, either during the Cold War or the post-Cold War. This is the major objective of this study, to interpret U.S.-China relations by dissecting the facilitation of market force.

I wish to extend my thanks to Prof. C. Y. Chang, who patiently guided me from the pursuit of knowledge to intellectual enrichment. His comments, ideas and encouragement are invaluable to this study. Prof. Wu Guoguang gave useful criticism of my writing, and I am grateful for his concern throughout the writing process. I wish to thank Prof. Lee Chin Chuen and Prof. John Wong for their time and comments. Susan Blumberg Liu, Barbara Koh and Dimitri Kaczmarek are enormously helpful in polishing my writing.

The University Services Center at the Chinese University of Hong Kong provided sufficient resources on the China materials. Solomon Wong at the United States Information Service in the American Consulate General generously provided updated information about contemporary U.S. politics. In terms of locating first-hand material and the sources for the American side, I benefitted from the Eu Tong Sen Scholarship, which enabled me to study and conduct research at the University of Hawaii in the latter half of 1995. The East-West Center became a constant help during my stay in Hawaii. Throughout the research and my academic pursuit, I faintly extend my gratitude to the Department of Government & Public Administration of the Chinese University of Hong Kong in giving me the opportunity and other spiritual and financial support.

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CHAPTER 1

INTRODUCTION

Americans have associated commerce with open markets, open markets with political freedom, political freedom with democracy, and democracy with peace.¹

Jeffrey E. Garten

Re-interpretation of Sino-American Relations

This study attempts to reinterpret U.S. foreign policy toward China after the Second World War by looking at the externalization of market forces.² Throughout the study, I shall put forward the concept of Augmented Market Liberalism (AML) as a theoretical guide to analyze their relations.

The AML is defined as *a process of assimilation and transformation of one's country generated from the externalization effects of the market force*. In terms of Sino-American relations, the externalization effects refer to the U.S. construction of a favourable environment to accomplish the change. First, from the foreign policy perspective, the transformation of Japan after 1945

strongly situated the market ingredients and the model of capitalism in the Far East.

The opening up of U.S. domestic market to Japan and the nurturing of Japanese market economy gave rise to multiple effects in terms of economic development and marketization toward Asian countries. Second, The success story of the Four Little Dragons further enhanced the ideas of using market force as a linchpin of development. In the Cold War terminology, these two examples served as the classic cases of the manifestation of Containment policy.

In the post-Cold War era, the denoting effects of U.S. foreign policy are still profound. U.S. interests include: 1) military stability and peace in the Far East; 2) insuring that economic opportunities in the Far East not to be toppled by an abrupt change in the balance, either by the rise of China or by the internationalization of Japan, of the political environment; and 3) upholding the idea of democracy through economic development in the many Asian countries that are adopting a market economy as their development model.

As the major ingredient of the U.S. foreign policy toward China, *the pattern of market behavior gave rise to access to opportunity, enlargement of goals, growth through production and consumption and the manifest orientation that envisioned change.* Market is a dynamic organ which does not belong to

any single country. Yet, it exists within and around countries that embodied the ingredients of market forces.

Historically, the transformation effect of market toward a society has long been an academic focal point. Karl Polanyi's ground-breaking book *The Great Transformation* set forth a classic literature in studying the anatomy, the pattern of change and the facilitation of change of market economy in the 19th century.³ The "self-regulating" nature of market behavior actually energized the world toward an astonished new page.⁴ In addition, argued by Edward J. Nell, "Not that market outcomes are *optimal*, [italic in original] but rather that they have a certain objectivity and reflect robust good sense. If you pay attention to the market signals, you ought to do all right; if you don't you will run a serious risk of going under."⁵ The momentum of market and the dynamic force of liberalism energize the world to growth in an unprecedented manner. Empirical studies and researches recently attribute the transformation of the global economy to the market impetus and the force that behind it.⁶ The post-Cold War international economy has witnessed the rapid changes of the economic structures of many former socialist countries. The demise of former Soviet Union encouraged the transformation of many centrally planned economies to market-oriented economies. The introduction of private property rights and the vigorousness of market competition are given great attention by many international organizations.⁷

The perpetuation of market forces, in fact, reconciles Sino-America conflictive disagreement by re-orienting their focus on the possible gain through trade instead of measuring themselves with degrees of military confrontation. China's government, especially after 1978 gradually internalized this facilitation of market liberalism as an agent of modification.

Fortunately, the market, as an agency of change, performs well in regulating the various transactions involved in Chinese society without violating too much the political ecology of China. As Susan L. Shirk put it, "Still, the lesson of the Chinese case is that in some varieties of communism, it is possible to move from a command economy to market competition without changing the political rules of the game. Communist rule in and of itself is not an insuperable obstacle to economic transformation."⁸ The adaptation to the disciplinary guiding post of market force engendered a mode for the change of policy orientation toward internal development as well as foreign investment. In particular, the need for capital and technology from China's economic reform and development inevitably leads to further deregulation policy and relaxation. This change is clearly depicted from Margaret M. Peason's study on foreign direct investment (FDI) in China. She strongly pointed out that:

The growing belief that their [Chinese] economic modernization program required them to absorb foreign capital at even greater levels put them on a course whereby they had to pay attention to foreign concerns, and more generally to ways they might be able to improve the investment environment.

Under these condition, the reformers had little choice but to liberalize.⁹

In relation to U.S-China foreign policy, U.S. foreign policy facilitated as an assistant in fulfilling these forces. In addition, as China opened to the outside world in the early 1980's, the U.S. needed to implement a policy to incorporate the ingredients of market force. Moreover, the market force, during the post Cold War era, allows the U.S. to maintain the world leadership not in a way to "command troops and confront enemies" but "to bargain across many different issues and groups, build coalitions, and seize opportunities for agreement."¹⁰ The study of market force, therefore, enables us to witness the logical sequence and vastitudes of Sino-American foreign policy since the World War II. Before we go to the detail, we fist look back to reveal some of their historical background.

U.S.-China Foreign Relations in Retrospect

The pendulum of U.S. foreign policy toward China moved from a containment policy during the height of the Cold War to an engagement policy in the post-Cold War era. In essence, the ideology of American foreign policy has long been embodied in the two concepts of "white man's burden" and "manifest destiny".

The “White Man Burden” refers to Americans’ innate passion for world liberation and the improvement of human intellect. However, such a responsibility, when translated into realistic foreign policy, may sometimes result in a euphemism for expansion instead of wholehearted support.¹¹ By the same token, “Manifest Destiny” was used to describe the exploration of Texas and the West by Americans in the 1850s. Post WWII U.S. foreign policy toward Asia and China is similar, if not identical, to that policy.¹²

However, historically, U.S. foreign policy toward China, in retrospect, demonstrated that a lack of mutual respect toward international market forces underlying U.S.-China relations inevitably resulted in setbacks and resentment. The United States had tried to open up China in the late 19th century by fostering a foreign policy that was originally aimed at enlarging business opportunities, in contrast to a “sphere-of-influence” policy practiced by other nations.

The first phase of American foreign policy toward China began in the late 19th century when the Open Door Notes were promulgated in 1899 and 1900¹³. United States policy was based on its historical orientation toward economic interests and market openness.¹⁴ In the late nineteenth century the American China Development Company¹⁵ was established to energize the American capitalism machine abroad. China was regarded as “one of the most promising fields for American enterprise, industry, and capital.”¹⁶ The sentimental value of the U.S. has long been captured in a mode of

transformation. In addition, according to Mark Sullivan, the open-door policy “was set up in contrast to the ‘spheres-of-influence’ policy practiced by other nations....”¹⁷ As argued by Tang Tsou, “America was deeply inspired by the vision of a huge country with an ancient civilization transforming herself into a modern, democratic, Christian nation and following the lead of the United States.”¹⁸ This Open Door policy, however, failed because it was basically imperialistic and coercive.¹⁹ The economic and market incentives behind the policy shrunk, especially after the Qing empire collapsed from internal decay.²⁰

The successive Nationalist Government was embedded in an atmosphere of confusion and disintegration. According to *The China White Paper*, U.S. foreign policy objectives were to maintain an “equality of commercial opportunity” and “the territorial and administrative integrity and political independence of China”.²¹ The momentum of the American market attitude toward China between World War I and World War II was ratified by a tariff treaty - signed by J. V. A. MacMurray, Envoy Extraordinary and Minister Plenipotentiary of the United States of America and T. V. Soong, Minister of Finance for the Nationalist Government of the Republic of China.²² The Treaty Between the United States and China Regulating Tariff Relations was described as “an earnest desire to maintain the good relations which happily subsist between the two countries, and wishing to extend and consolidate the commercial intercourse between them

....”²³ Nevertheless, America’s interests were quickly washed away by the increasing Japanese military expansion and political loitering. Eventually, the end of the Nationalist Government and the rise of the People’s Republic of China resembled the bifurcation of China’s growth into a socialist state and the evolution of a global market economy.

America’s second attempt at a foreign policy toward China failed during the Mao era (1949-1976)²⁴ The Sino-American relations sunk to their lowest, especially in the late 1950s due to the loss of common ground on economic issues. After 1949, the People’s Republic of China under Mao’s ideology, repudiated any ideas related to a Western market economy. Market potential during the Mao period was close to zero because Mao’s ideology prevented him from looking at Sino-American relations in terms of economic potential.

In addition, debate about the American economy was overwhelmingly clouded with calls for containment and the fear of the spread of communism (from the former Soviet Union to China and from North Korea to Indo-China).²⁵ But the “Containment Policy”²⁶ was ineffective because American militarism was not a proper tool in which to modify China. According to one of the chief architects of the Containment Policy, Robert S. McNamara,²⁷ the escalation of military confrontation, armament struggle and political manoeuvring at the time of the Cold War were nothing but the “misperceptions and mistrust that exist to this day.”²⁸

In addition, military spending during the Cold War was regarded as unnecessary, if not a total waste.²⁹ The Vietnam War was considered to have no direct contribution to the economic well-being of the people in Southeast Asia. Moreover, according to Hans Morgenthau, the United States should also bear the moral obligation for the catastrophes and huge human losses incurred in Vietnam.³⁰

After the death of Mao in 1976, Deng Xiaoping's leadership was considered as the first time that the market economy was implanted in mainland China's state policy. Sino-U.S. foreign relations were first secured on the basis of a mutual development toward fortifying the market economy. Nowadays, many scholars still argue over contemporary U.S.-China relations. Observing the approaching third phase of America's Chinese foreign policy – trade and economic co-operation – they arrive at two contrasting views. One looks at Sino-American relations with caution and skepticism. The term “fragile relations” is used by Harry Harding to describe U.S.-China relations since Nixon's visit in February 1972.³¹ The relations, in that sense, are considered fragmented and discretionary. Other less sanguine scholars have used the term “Greater China” to predict the overwhelming economic development and political power of the collaboration of mainland China, Taiwan and Hong Kong as a zone of influence.³² Nevertheless, some of these scholars look at the potential of the Chinese economy and want to begin economic and business relations with

China. The most notable advocate of the latter view is William Overholt, who strongly supports Chinese economic development and continued growth. Under such circumstances, the possibility of China's internationalization would be greater.³³ China's economic growth in 1995 was 9.8 percent,³⁴ and the huge potential market demands of a population of 1.23 billion³⁵ - are attractive to American investors.

Both views are part of a contemporary picture of Sino-American relations. However, many important ingredients of U.S.-China relations have not yet been addressed. In the first place, the advocates of the "China Threat" underestimate force of the market economy that has already been modifying China closer to the world economy rather than being locked into a pure idealistic socialism. Moreover, the norms of the market economy and the regimes, such as international organizations, underlying this concept are accepted by countries involved in global trading and market transactions. The engine has already started and will not be reversed without great economic and political costs. Furthermore, for those who have absolute confidence in the economic development of China and for those who only look at the Chinese economy alone should bear in mind that the international political economy has been an agent of modification in certain individual societies. With reference to these problems and questions, this book will look at the transformation of the market-oriented U.S. foreign policy toward China.

The Layout

Hence, the vicissitudes of American foreign policy toward China, with particular emphasis on the motif of modernizing China through the construction of AML, will be detailed in the following chapters. Part one refers to the basic line of argument. Chapter 2 provides a basic framework for analysis. The logic of America's market liberalism will be detailed, as will the notion that AML engenders America's long-established foreign policy dating from after the Second World War. The theoretical debate of the causes of economic development in Japan and the Four Little Dragons, an indigenous or exogenous growth, is as popular as ever. Apart from contrasting the general theories toward development and the feasibility of Confucianism in understanding Asian economic growth, other empirical literatures of Sino-America related will be surveyed. My perspective of Augmented Market Liberalism will be explored to understand the exogenous factor of the constitution of a market economy embedded in the auspices of U.S. foreign policy.

Part two details the early construction of the U.S. market augmentation policy. Chapter 3 demonstrates the fundamental picture of the world political economy underpinned by American foreign policy initiative through the exogenous market force. As a first prong to counterbalance the spread of communism from the former Soviet Union and the People's

Republic of China (PRC), Japan was forced, economical as well as politically, into a cornerstone for the fortification of capitalism. Chapter 4 will detail with the establishment of the U.S. embankment of the market force in the Four Little Dragons, paving the way to become a second prong to contravene communism. These two flanks, during the Cold War, served as tools of containment and encirclement of Communist China. After the opening of China in 1978 and the approach to the termination of the Cold War, these two flanks facilitated engagement and models of demonstration to Communist China.

Part three analyzes the Augmentation of the U.S. foreign policy toward China. Accordingly, chapter 5 will first analyse the Cold War syndrome of the foreign policy orientation by studying the strategic triangle. Then, it turns to investigate the predicament of Communist China's isolation during its early development after the Communist party took over the mainland in 1949. Mao's ideological encapsulation drove him to isolate China from the global market economy. The outbreak of the Korean War reinforced the U.S. containment policy. China collaborated with the Soviet Union to engulf the ideological as well as economic differences between the socialist camp and capitalist camp. The Great Leap Forward (1958-1960) and the Cultural Revolution (1966-1976) in China witnessed internal predicament in China. As the 1960s and 1970s marked the height of economic development in Japan as well as in the Four Little Dragons,

China's isolation revealed that a lack of market incentives created a profound adverse effect on its economic growth.

U.S. President Nixon had laid the groundwork for China's rapprochement with the world economy after his visit in February 1972. In chapter 6, the anatomy of Nixon's visit will be diagnosed from the new findings in the trading opportunity of wheat as their common interests. The line of development of Sino-America relations in this particular historical juncture was an externalization of market forces as the Gold Standard collapsed at the same time. The reasons of why, how and to what extent the incident affected Sino-American relations constitutes the basic ingredients of this chapter.

Chapter 7 will examine the mutual coordination of China's economy with the world market economy. The continuation of China's growth and development aroused world attention. In terms of China's coordination with the world economy, its application to the GATT, later the World Trade Organization (WTO) and World Bank consolidated China's pace toward developing a market economy. The coordination of trading opportunity between China and the world economy will be studied through its relations with the major trade regime, the GATT/WTO.

Part four focuses on the post-Cold War Sino-American foreign policy trajectories. Chapter 8 will illustrate the re-adjustment of China's economic development and its foreign relations with the U.S. after the Cold War. The

engagement and enlargement of U.S. policy toward China are said to constitute the new orientation of U.S. long-term strategy. The co-operation and conflict between these two countries are attracting major worldwide attention, for example the disputes between intellectual property rights, the Taiwan issue and the MFN. The post-Cold War world political economy sustains the AML of the U.S. foreign relations with China. The future prospects of foreign relations between them will therefore be revealed so as to probe a thread of trial for the orientation of foreign relations between them in the foreseeable future.

In conjunction with the approach of AML, chapter 9 discerns some possible theoretical implications that clearly accompany contemporary Sino-American relations in the arena of the international political economy. First, China's involvement in the world economy is encompassing as interaction between China and the United States becomes intense. Second, U.S. foreign policy toward China demonstrates a monitoring function on China's interdependence with the world economy. Finally, China's Third World role is being changed and transformed. Part five, chapter 10 will serve as the summary and conclusion of the overall findings in my research.

Sources and Data

Primary sources of the U.S. Congress Hearings and the treaties will be used fairly to track the development of U.S.-China foreign policy. The

reasons behind using the Hearings are: 1. accessibility; 2. Hearings, whether being held on Committee or Sub-committee levels, are standard procedures to initiate a bill in the House or the Senate³⁶; 3. Hearings are good ways to look at not only the practitioners' view points but also the other opinions drawn from the whole society. More often than not, those people from business groups, academic circles and "careerists and ins-and-outers," including the foreign policy elites, the executives of big firms and academic professionals, are substantially influential in foreign policy making.³⁷ Although Congress hearings cannot reveal everything about U.S. foreign policy, they indicate the discourse of the U.S. foreign policy. Like the political party, the Hearing functions as the articulation of ideas and the aggregation of opinions.

Other resources such as memoirs of the U.S. Presidents, books and journals either in English or Chinese are used regularly throughout the book. In terms of locating first-hand material and the sources for the American side, the author was awarded a scholarship from the Eu Tong Sen Memorial Exchange Program, which enabled him to study as well as conduct research at the University of Hawaii in the Fall 1995. Hence, the Government Documents Section in Hamilton Library at the University of Hawaii served as a valuable location of governmental archives.

Moreover, the University Services Center at the Chinese University of Hong Kong provides archival resources on locating historical newspapers

in all Chinese provinces from 1949 to now. The United States Information Service in Hong Kong American Consulate General also generously provides up-dated information about contemporary American politics under the categories of *Backgrounders* in economics, foreign policy and politics.

NOTES

¹ Jeffrey E. Garten was the Under Secretary of Commerce for International Trade from 1993 to 1995. See Jeffrey E. Garten, "Business and Foreign Policy" *Foreign Affairs* 76, no. 3 (May/June 1997): 67-79.

² In economics, there is a term called externalities. It refers to "the costs or benefits of a transaction that are incurred or received by members of the society but are not taken into account by the parties to the transaction." Richard G. Lipsey and Peter O. Steiner, *Economics*, 6th ed., (New York: Harper & Row Publishers, 1981): 424. The U.S. market-oriented policy toward China resembled a similar trajectory. In addition, I also analyzed the application of the concept of social cost to the U.S.-China relations in another occasion. See Gordon C. K. Cheung, "A Social Cost Approach to the Intellectual Property Rights Dispute Between the United States and China" *Issues & Studies* 32, no. 12 (December 1996): 111-123.

³ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).

⁴ *ibid.*, 3.

⁵ Edward J. Nell, *Making Sense of a Change Economy: Technology, Markets and Morals* (London: Routledge, 1996): 51.

⁶ Alfred D. Chandler, Jr., *Scale and Scope: The Dynamics of Industrial Capitalism* (Cambridge, Mass: The Belknap Press of Harvard University Press, 1990).

⁷ Hans Blommestein and Michael Marrese, *Transformation of Planned Economies: Property Rights Reform and Macroeconomic Stability* (Paris: OECD, 1991). Of course there are many other literatures about the privatization of former socialist states, this one serves as one of the examples only.

⁸ Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993): 334.

⁹ Margaret M. Pearson, *Joint Ventures in the People's Republic of China* (New Jersey: Princeton University Press, 1991): 213.

¹⁰ G. John Ikenberry, "The Future of International Leadership" in *American Leadership, Ethnic Conflict, and the New World Politics*, edited by Demetrios

James Caraley & Bonnie B. Hartman (New York: The Academy of Political Science, 1997): 18.

¹¹ Rudyard Kipling, *If* (London: Phoenix, 1996): 17-19.

¹² John D. Hicks, *A Short History of American Democracy* (Mass: The Riverside Press, 1949): 323-322.

¹³ William Appleman Williams, *The Tragedy of American Diplomacy*, new edition (New York: W.W. Norton & Company, 1972): 45.

¹⁴ *ibid.*, 56.

¹⁵ *ibid.*, 40.

¹⁶ *ibid.*, 49.

¹⁷ The quotation is adopted in George Kennan's book. See George F. Kennan, *American Diplomacy 1900-1950* (New York: The New American Library, 1951): 24.

¹⁸ Tang Tsou, *America's Failure in China 1941-50* (Chicago: The University of Chicago Press, 1963): 5.

¹⁹ William Appleman Williams, *op. cit.*, 120.

²⁰ See Theda Skocpol, *State and Social Revolution: A Comparative Analysis of France, Russia, and China* (Cambridge University Press, 1979), 68-81 and Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (London: Penguin Books, 1969): 162-227.

²¹ *The China White Paper August 1949* (Stanford: Stanford University Press, 1967): 1.

²² *ibid.*, 12.

²³ *ibid.*, 445.

²⁴ Although President Richard Nixon paid a historic visit to China in February 1972, the formal agreement between China and America was only signed in 1979.

²⁵ Thomas J. McCormick, 2nd. ed., *America's Half-Century: United States Foreign Policy in the Cold War and After* (Baltimore and London: The Johns Hopkins University Press, 1995): 114-122.

²⁶ The Containment Policy was derived from a single source. It derived from the 1947 Truman Doctrine, the 1948-1952 Marshall Plan and the establishment of the North Atlantic Treaty Organization (NATO) in 1949. See *ibid.*, 72-98.

²⁷ Robert S. McNamara, *Out of the Cold: New Thinking for American Foreign and Defence Policy in the 21st Century* (New York: Simon and Schuster, 1989).

²⁸ *ibid.*, 100.

²⁹ *ibid.*, 91.

³⁰ Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace* (brief ed. rev. Kenneth W. Thompson) (New York: McGraw-Hill, Inc., 1993): 248-9.

³¹ Harry Harding, *A Fragile Relationship: The United States and China since 1972* (Washington, D.C.: The Brookings Institution, 1992).

³² David Shambaugh, ed., *Greater China: The Next Superpower?* (Oxford: Oxford University Press, 1995) and Harry Harding, "The Emergence of Greater China: How U.S. Policy will Have to Change" in *The American Enterprise* (May/June 1992): 47-55.

³³ William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York and London: W.W. Norton & Company, 1993).

³⁴ The Economist Publications, *The World in 1996*, 88.

³⁵ *ibid.*

³⁶ Edward S. Greenberg and Benjamin I. Page, *The Struggle for Democracy*, 2nd. ed., (New York: HarperCollins, 1995): 412.

³⁷ Thomas J. McCormick has detailed the inter-relations among these people in shaping and even formulating American foreign policy, either in the Cold War or in the post-Cold War era. See Thomas J. McCormick, *America's Half-*

Century: United States Foreign Policy in the Cold War and After, 2nd. ed.,
(Baltimore and London: The Johns Hopkins University Press, 1995): 7-16.

PART ONE: THEORY

CHAPTER 2

A FRAMEWORK FOR ANALYSIS

The Chinese economy is already too complex to be governed entirely by administrative measures rather than by market forces.¹

Harry Harding

Introduction

The Augmented Market Liberalism (AML) of U.S. foreign policy toward China emerged out of the US perpetuation of developing a structured market economic force in the Asian Pacific region, a transformation policy characterized by change and modification. The major theme of this chapter rests on the theoretical investigation of how the exogenous variable of AML, facilitating first as American foreign policy toward Japan and the Four Little Dragons, will influence the ultimate transformation of China.

This Chapter will be divided into three sections. The first section will explore two alternative views which deal with the endogenous explanation

of the Asian Pacific region's growth. The second section will survey other empiricle studies of the Sino-America relations. Finally, I shall post my persceptive of Augmented Market Liberalism (AML). The AML offers an alternative way of study the exogenous effect of the market-oriented U.S–China policy.

Two Alternative Views: Development Theories and Confucianism

Apart from foreign policy analysis, the facilitation of the U.S. AML toward Asian countries might sometimes interpreted by other ways of understanding. The brief introduction of the following two views served as an counterargument from the perspective of developmental approach. In understanding Asian Pacific economic development, there are two widely used approaches: the development theory and theory of Confucianism. Developmental theories became popular in the 1950s and the 1960s as a way of explaining how post colonial countries and territories developed. The theory of Confucianism, however, was relatively new in the 1970s and 1980s as an alternative to understand the so called “miracle” of Asian economic growth. Outlining these two theories serves as a contrast to the perspective of AML that is used throughout the work.

a.) Development Theories

The search for a theory of development reached its climax in the 1960s when many former colonial states achieved their independence. There are many theories pertaining to this category, for the purpose of analysis three of them will be explained. They are: W.W. Rostow's modernization theory, Andre Gunder Frank's theory of underdevelopment and Mancur Olson's theory of distribution coalition.

The concept of development has long been a debate not only in terms of its meaning, but also in the context of how development is achieved. In his book, *The Stages of Economic Growth*, W. W. Rostow postulated a theory which leads to a wide debate on the path, or the right path, toward economic development. His theory extrapolates a linear path of development. He posits that all societies can be categorized into five stages: "the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption."²

Rostow's theory provides a way of explaining economic development. However, his theory has not been free of criticism. Obviously, the theory of stages-of-growth strongly emphasizes the automatic process of the various stages. Once it starts, it proceeds as has been projected. The theory excludes

the fact that once the engine of economic growth has started, many unforeseen and unexpected political and social problems might arise,³ particularly when economic growth involves income redistribution of the economy at large. Second, Rostow's theory of stages-of-growth is an ideal-type which gives an *a priori* explanation to cover every country. He uses Russia, the United States, Great Britain, China, Sweden, etc. to support his theory. But, if we want to substantiate this theory and apply it to explain the economic growth of Japan and the Four Little Dragons, it would be less feasible. Economic growth in these countries depended upon their individual uniqueness in the formulation of government policies which can be characterized as an endogenous force. But, the major impetus comes from the exogenous U.S. market liberalism encapsulated in its foreign policy framework.

A. G. Frank's thesis is one among a few that falls within the world system and dependency approaches. The main idea of Frank's theory is "the development of underdevelopment". In fact, economic development and underdevelopment are the opposite faces of the same coin - both generate economic development and structural underdevelopment. Throughout history economic development in Latin American resulted from the legacy of the colonial powers' expropriation and appropriation. Structural underdevelopment came from the exploitative relationship between the metropolis and satellite states. Metropolis states referred to the colonial

powers, such as Portugal and Spain in the 17th and 18th centuries. Now, they refer to developed countries such as the United States, Britain and France and etc. The satellite states are those developing countries which have long been exploited by colonial powers. The outstanding examples are the countries in Latin American, such as Brazil and Chile.

By using a historical approach, Frank concentrates his argument on the capital accumulation of the metropolis and the exchange relationship with the periphery. He used three main stages in the world capital accumulation and capitalist development: the mercantilist stage (1500-1700), industrial capitalist stage (1770-1870), and imperialist stage (1870-1930).⁴ They illustrate how capital had been distributed unevenly through out the historical process. Besides, the development process is biased and capitalist countries produce polarization by expropriation of economic surplus from developing countries.

Although Frank's theory paints a general picture of the nature of underdevelopment, we should ask the question of why some countries, no matter how heavily dependent on foreign investment, are poor and the other are rich. For example, Japan was nearly destroyed by a war that was created by herself. However, her export-led strategy and post-war economic development enabled her to become the leading export country without being affected by the underdeveloped nature of growth. Canada was heavily dependent on foreign trade from Britain and France in the early 19th

century.⁵ Now, she is one of the members of the G7 industrialized countries. Therefore, it would seem that to apply Frank's theory to other countries other than those in Latin America, it is still questionable and needs further investigation.

In understanding of development among nations, one may suggest the ways of modernization (W.W. Rostow), or the ways in which a country can imitate or follow the footsteps of the developed countries in a similar pattern. Or, one might condemn the international environment, the exploitative world systematic structure (A. G. Frank) to the under-developed nature of many developing countries. However, in his book, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, Mancur Olson attempts to use "distributional coalitions"⁶ to explain why nations become stagnant (economically, socially, and politically). A possible way to prevent a country from declining is to search for a way that prevents "sclerosis"⁷ from infecting the whole body of the country by those organizations such as, unions, institutions and any established governmental or non-governmental structure. It demands more liberal economic policies and pluralistic measures in the political sphere.

Distribution coalitions refer to "the organizations for collective action within societies that we are considering are therefore overwhelmingly oriented to struggles over the distribution of income and wealth rather than to the production of additional output."⁸ In other words, the tariff barriers

inflicted on the importable, trade unions within a single country, labor organizations across different industries are nothing but barricades to growth because they work in a way not to produce but to reinforce the robustness of those organizations. To use an analogy, the collective action or interest of those organizations resemble the cells in a human body. The collaboration and mingling with some kinds of cells in a human body might cause some long-term deficiencies to the whole. In so doing, the continuation and development of those organizations may eventually differentiate the aims between the organizations themselves and the nation as a whole. In the long-run, this is not healthy and may contribute to the decline of a nation.

To summarize, the rational choice theory of group action indicates a culmination of individual interests that may contribute to the collapse of nations (although unnoticeable). The use of this theory in comparative politics rests on the fundamental understanding of the causes of increases and decreases of nations at large. When Rostow first gave his “non-communist manifesto” in 1960, it served as a fundamental guide for many developing countries by demonstrating the methods and different ways of growth. Olson’s theory first appeared in 1965, serving as a preventive theory. To prevent the decline of nations from accelerating, one has to pay attention to the rational expectation of individuals and the collaboration of the groups regardless of their level of economic development. A comparative finding of

relations between theories of development and the growth of Japan, Four Little Dragons and China is depicted as follows:

Figure 2. 1 The Inadequacy of Using Traditional Theories of Development in Explaining the Economic Development of Japan, the Four Little Dragons and China

Theories of Development	Characteristics	Degree of Applicability	Why?
W.W. Rostow: Stages of Economic Growth	Linear Development	Medium	Not all the states have gone through these stages
G.A. Frank: Development of Under-development	Marxist Perspective	Weak	Simply cannot explain those countries' growth
Mancur Olson: Distributional Coalition	Rational calculation of group may hinder the countries' growth	Unknown	The economic development of the four little dragons are still under-going the process of growth

In conclusion, the complexity and subtleties of development studies rest on the identification of an appropriate perspective in the analysis of proper cases. According to the above comparison, the economic development of Japan, the Four Little Dragons and China should be understood in a way that not only provides a casual understanding of the meaning of development in an endogenous sense but also enables us to distinguish the features that underpin the different developmental paths among those countries. Broadly speaking, both the structural theories of stages of growth and underdevelopment and the rational group action theory, aim at indicating some factors which may lead to development or underdevelopment. The lack of these theories may impair the growth

process among different countries. Nevertheless, examples of the development of the Four Little Dragons indicate that a mere understanding from the developmental angle is highly insufficient. Apart from the construction of a development theory, the search for a common ingredient experienced in all these countries deserves exploration. This exploration will therefore depict the work of market as the rudimentary force that engenders the long-established U.S. foreign policy objectives in the transformation and modification of Asian Pacific economies. We will now turn to the Confucian way of understanding Asian economic growth patterns.

b.) Confucianism

The economic development of post World War II Japan and the fast growth of the Asian Newly Industrialized Economies (NIEs) arouses curiosity as well as suspicion of many social scientists. They look for explanations for these peculiar phenomena. Many of them, such as Peter Berger, Hsin-Huang Michael Hsiao and Siu-lun Wong come up with a cultural explanation for these economic miracles. Their interpretation of the relationship between culture and economy reopened the question that Max Weber had asked in his book *The Protestant Ethic and the Spirit of Capitalism*.⁹ In this book, Weber attempts to investigate the origin of the spirit of capitalism in relation to the “The magical and religious forces”.¹⁰ This idea is particularly related to Western Puritanism and modern

capitalism. That said, since the use of culture as an explanation of economic development is in itself problematic, even Anthony Giddens, the author of the introduction of the English version of *The Protestant Ethic and the Spirit of Capitalism*, criticized that “Weber’s statement of the connections between Puritanism and modern capitalism is based upon unsatisfactory empirical materials.”¹¹ Nevertheless, the use of culture to understand economic development across countries is still tempting to many scholars.¹² To relate culture and economic development to contemporary settings, many theorists attribute Japan and the Asian NICs development to Confucianism.¹³

Like many other sociologists, Peter Berger is interested in the myth and cultural history of Asian countries. His personal encounters and interviews in various Asian countries such as South Korea, Taiwan, Japan, Singapore and Hong Kong propelled him to derive an “East Asian development Model”.¹⁴ The assumption or the major ingredient of the Asian model maintained that “both Japan and the newly industrialized countries of East Asia belong to the broad area of influence of Sinitic civilization, and there can be no doubt that Confucianism has been a very powerful force in all of them.”¹⁵ The powerful force of Confucianism is interpreted by Hsin-Huang Michael Hsiao as the “Confucianist moral definition of the state”.¹⁶ The Confucian tradition of Asian countries, therefore, enables the state to freely mobilize humans as well as effectively use bureaucratic authority.¹⁷

Michael Hsiao emphasizes the family and work organization as the characteristics embedded in Confucian thinking¹⁸

In fact, the central issue of the Confucian idea of the family is used extensively by Siu-lun Wong as a model to analyse the modernization of Hong Kong's economy.¹⁹ Acknowledging the tradition of family ties and subordination of paternalism, Wong suggests that the so called "paternalistic management"²⁰ is the key to Hong Kong's successful economy. In particular, the emphasis of "being-one's-own-boss" mentality of many Hong Kong people also gives rise to the vibrant and vigorous economic and industrial growth of Hong Kong.²¹

The above mentioned represent some ways in which Confucianism is used to understand Asian economic growth. Many of these ideas extensively use Confucian doctrines such as family relations, respect, hierarchical structure of kinship and management of society, etc as their center of argument. Nevertheless, it has to be pointed out that Confucianism is a very broad concept which does not only include the two founding fathers, Confucius and Mencius. As a concept, Confucianism, is a long and very embracive meaning. Using the book of Confucius as an example, *The Analects of Confucius* contains conversations between Confucius and his students, fostering the way of governance and the crux of human relations.²² For instance, in Book 16: Ji Shi, Confucius has substantiated his idea of equality by saying that "For when wealth is equally distributed, there will be

no poverty; when the people are united, a small population will not matter much; and when there is stability throughout the land, there will be no such things as peril and subversion.”²³ It is clear that his idea of government concerns the fairness of society. The connotation is more close to socialism than capitalism. Again, the sense of growth and economic development transcends less in the original spirit of Confucius.

Furthermore, if Confucianism has such profound and positive effects on the economic development, why are North Korea, Thailand and Burma still suffering from poverty. The Korean peninsula was a Chinese territory centuries ago and Thailand and Burma have substantial Chinese populations. Finally, to put it more bluntly, Ezra F. Vogel argued that “If Confucianism alone explains why countries modernize, why should the Confucian motherland lag behind? It is true that after 1949, failure can be attributed to socialist planning, but China had not achieved widespread industrialization before 1949, either.”²⁴ As mentioned earlier in this section, the usefulness of Confucianism in the explanation of the Asia’s development has provokes many unanswered questions which are subject to further consideration. Moreover, this section has earlier suggested that many endogenous variables enable one to better understand Asian development. The purpose of mentioning two alternative views - Development theories and Confucianism, is to provide a contrast to my postulation of the exogenous force of market liberalism.

Other Empirical Studies of the Sino-U.S. Relations

U.S.-China foreign relations is a big topic. To understand their relations without having a perspective will only result in either descriptive or speculative. In addition, U.S.-China relations changed dramatically in the Cold War and the post-Cold War era. Therefore, I shall only examine some of the major literatures published after 1990.

David Shambaugh introduced a new perspective in Sino-America relations. He puts forward in the introduction that he treated himself as a person who looked at Sino-U.S. relations from the Chinese perspective. In so doing, the bias would be reduced. His effort was highly appreciated especially his research ability in accessing the Chinese source. However, his “perspective” of using a Chinese angle is greatly challenged, particularly in terms of his opinions toward “China’s America Watchers.”²⁵

Among the others, Harry Harding’s *A Fragile Relationship* was a comprehensive account of the Sino-America relations after 1972.²⁶ The contents of this book were useful as a reference in familiarizing the author about some important incidences governing Sino-America relations. Yet, as

indicated by the title, it lacked the theoretical crisp that entails the logic behind their foreign relations. On the contrary, William Overholt was optimistic toward the economic development and the reform of China.²⁷ After reading his book, one might begin thinking of investing in China right away. However, on second thought, the rosy picture painted did not present the development of China in a more analytical way. In addition, his position of being a managing director for a financial company in Hong Kong reduced the impartiality of the argument of the book.

Nicholas R. Lardy convinced the readers that the Chinese have a robust economy by referring to important statistics and tables.²⁸ His expertises in understanding China from an economic angle earned him a due reputation. But, apparently, this book was one of the many products assigned by the funded-institutes. As soon as analysts and researchers were looking for a resourceful and analytical volume in guiding them through the post-Cold War era in Sino-America foreign relations, Thomas W. Robinson and David Shambaugh edited a collections of latest Sinologists' interpretation of U.S.-China relations.²⁹ It was indicative as well as theoretical. A must read for graduate students in field of China study. Although the material was all useful, it was futile to draw a coherent line of thought among all the experts.

In 1995, two books related to U.S.-China relations were published by National Textbook Company. Robert Rowland endeavored to illustrate the U.S-China relations by describing some current issues such as human rights,

trade and military problems. But a central theme or the theoretical framework was missing³⁰ Lynn Goodnight and others edited enormous newspaper highlights, speeches, magazines articles and paragraphs from different journals.³¹ As the Caption of the book rightly mentioned, it was a “complete resource handbook”. It served as the shortcut to look into those materials and eased some valuable research time. But it was a tool only.

The uncompromising line of argument of Rosemary Foot distinguishes her from many Sinologists.³² Withholding a very strong argument of hard and soft power relations, she saw U.S.-China relations as one of the examples of the U.S. hegemonic influence, with a strong sense of Cold War spirit. Nevertheless, as Samuel Kim put it, “She is somewhat less successful in describing and explaining the turns and twists of the Sino-American relationship in the post-normalization period, especially from 1989 to 1994.”³³ My line of argument, however, is different from her in the light of coordination of market forces, not the conflictual nature of practicing of power. Compared with Harry Harding, Robert S. Ross saw U.S-China relations after 1972 as cooperation.³⁴ The mode of cooperation between China and the U.S. was based on their strategic relations. The theme that underlys his argument indicated that it was an imperative of the U.S. choice to cooperate with China in a strategic manner. Since their relations were strategical, it was situational, not on the genuine understanding with each other.

Quansheng Zhao used the micro and macro linkage approach to address China's foreign relations.³⁵ It seemed that his first two chapters appropriately managed the two concepts in theoretical terms. But, the empirical findings did not match coherently with the theory. In addition, the linkage approach was previously used by Kuang-Sheng Liao in his understanding of the relations between antforeignism and modernization of China.³⁶

A controversial, although not academic, book called *China Can Say No* was written by some Chinese young reporters and intellectuals in 1996.³⁷ As the five authors mention, the book was not intended to be academic but aimed at providing a reflection to the discourse in Sino-America relations. Although the book was praised by the Beijing Review as "well reflect views shared by many others."³⁸ the contents of the book were subjective and restricted.

Some scholars in the post-Cold War era, nevertheless, still place Sino-America relations in the mode of military confrontation. For example, in a recent issue of *Foreign Affairs*, Richard Bernstein, Ross H. Munro and Robert S. Ross debated over the military expansion of China.³⁹ The former authors perceived China as an immediate threat while the later author saw China as potential threat. Their differences and disagreements appeared as a matter of degree, not substance.

The above-mentioned scholars either treat Sino-America relations as a scattered issues area or still maintain and analyse Sino-U.S. relations in light of the Cold War understanding. The following perspective, nevertheless, hopes to bridge the theoretical and the empirical gap.

Alternative Perspective: Market as an Exogenous Forces of Modification

The market, nevertheless, does not necessarily preclude the function of the autonomous effects of individual states in generating prosperity and economic development. However, it would also be a grave mistake if the function of the market as a transformation agency could not be addressed from the developmental process of the facilitation of U.S. foreign policy. As Peter F. Drucker posits:

The economy will, to be sure, remain a market economy - and a worldwide one. ... the market, for all its imperfections, is still vastly superior to all other ways of organizing economic activity - something that the last forty years have aptly proven. What makes the market superior is precisely that it organizes economic activity around information.⁴⁰

Culminating with foreign assistance, trade, foreign direct investment and the opportunity to access world markets, the shield of capitalist force self-generated a sense of acceptance with the regulation of the market among Japan, the Four Little Dragons and China in particular. The enclosure of the socialist countries by the market economy of the U.S. during the Cold War

is clearly explained by James Fallows. He says that "... it is important to build a ring of states around China that are stable and independent. They would not be a military buffer against China, but they could be a political buffer."⁴¹ However, the above statement represented the theme of Cold War interpretation.

From the angle of market transformation, Alfred D. Chandler, a Harvard professor of business history, has demonstrated that a market that develops from dynamic competition among industrial enterprises acts as a transformation agent in modifying individual societies. He added that

These industries, in turn, were the pace setters of the industrial sector of their economies - the sector so critical to the growth and transformation of national economies into their modern, urban industrial form.⁴²

In the cases of the growth patterns of Japan, the Four Little Dragons and China in particular, the transformation effect of the global market to the individual economy is clearly engendered by the U.S. political and economic influences after the World War II under the trajectory of an Augmented Market Liberalism (AML).⁴³ To analyze the perspective of AML, we have to look at the international structure, the regional structure and the process.

a.) International Structure

The argument of the perspective of AML begins from the United States' establishment of an international political and economic environment

which facilitated the development of the Cold War as well as the construction of international economic institutions. The U.S. foreign policy toward China has always been engendered by a perpetual force of the International Political Economy (IPE) which was created under the auspices of U.S. initiatives. The market force echoed in the Asian Pacific region allowed for an environment favourable to approaching China. Such an Augmented Market Liberalism (AML) became clear especially when China began her economic reform by adopting market forces as a strategy for domestic growth and internationalization.

The AML refers to the evolutionary process of U.S. foreign policy under a structural change of the world political economy. Many ingredients constitute that change. First, in terms of international politics, the U.S. engineered a comprehensive foreign policy initiative after World War II by implementing the Truman Doctrine in 1947, the Marshall Plan during 1948-1952 and the North Atlantic Treaty Organization (NATO) in 1949. Moreover, its international economic relations were also characterized by the construction of many regimes endorsed by the U.S. Those regimes included the International Monetary Fund (IMF) in 1945, the General Agreement on Tariffs and Trade (GATT) in 1947 and the International Bank for Reconstruction and Development (IBRD) in 1945 (later called the World Bank).

No sooner had the U.S. constructed a world development model under the market forces than the international politics was dichotomized into two camps, the Capitalist and the Communist. Sharper and more distinguished counteracting forces between communism and capitalism, thereafter, emerged. On the one hand, states that were prosperous, stable and economically developed belonged to the capitalist camp. On the other hand, states that are revolutionary, unstable and backward were characterized under the socialist camp. The function of the U.S. foreign policy was the linchpin for the regulating, stabilising and even the so-called policing the world from the thrust of socialism.

Many theorists such as Robert Gilpin, Robert Keohane and Charles Kindleberger characterize the above-mentioned phenomena as the facilitation of America's "hegemonic stability". The unique leadership of the hegemon through bestowing punishment and the provision of reward gives rise to sustaining and enforcing stability in a region.⁴⁴ Although the theoretical development of hegemonic stability has a long tradition beginning with the rise of the Netherlands in the 15th and 16th centuries, the dominance of Great Britain in the 18th and 19th centuries and the United States in the 20th century, provide typical examples of changes in hegemonic power. Here the emphasis of this study will be centered on the exploration of the subordination of the market economy under U.S. foreign policy orientation.

b.) Regional Structure

In the Asian Pacific region, AML was facilitated by the creation of an aura of the market economy which would strengthen American interests in the region and protect the region's stability from the threat of an encroaching communist ideology. The theoretical assumption behind AML is that the United States has been manoeuvring its foreign policy machinery to build up a two-pronged foreign policy establishment which can fortify its interests in the Far East as well as have a modifying effect on China's future course of development. As noted in *The New York Times*, "In a sense, the flowering of trade with China is an extension of American intentions in Asia that dated from the 1950s and 1960s, when the United States opened its markets to exports from Taiwan, Singapore and Hong Kong to help counter communism through growth."⁴⁵

The encroachment⁴⁶ of Japanese economic and political settings led to the first prong of the market force. The embankment⁴⁷ of the economic development of the Four Little Dragons with U.S. influence served as the second prong of market encirclement. "By opening its domestic markets and by applying liberal economic principles without demanding reciprocity (at least not until recent times)", according to Michael Yahuda, "the United States has made it possible for first Japan and then the East Asian NIEs to follow policies of rapid economic growth that combined various mixes of

export orientation and import substitution.”⁴⁸ The containment policy of the U.S. and the disassociation of China from the world economy confirmed that U.S. foreign policy was unsatisfactory, especially during the 1960s and the 1970s. As time went on, foreign policy between the U.S. and China changed as China changed with prevailing market forces. U.S. foreign policy toward China, swung from containment to engagement.

By helping them to become economically developed and politically stabilized, the United States has been constructing a consolidated base for her foreign policies towards China. Although their establishment clings to the Cold War theory, both their modelling effects and functions of modifying China are not inevitable. Together with China’s internationalization, the U.S. economic foreign policy toward China are as popular as ever. They have had the expected result, although it has been very slow.

c.) The Process

The theoretical rationale that parallels U.S. foreign policy with market liberalism is important because of market liberalism which has the effect of self-perpetuation and self-correction. It “selects behaviors according to their consequences.”⁴⁹ The countries which learn this concept can follow the creed of market forces, even though the guidance of American leadership

is shrinking, especially in the post-Cold War era. The pathological change of individual economies under America's influence is categorized as follows:

Figure 2. 2 A Typology of the Developmental Process of U.S. AML Toward China

	Japan	The Four Little Dragons	China
Foundation of Development	Structural Economic & Constitutional Change	De-colonization & Growth with international Market Demand	Socialism
Economic Structure	Market Capitalism	Small-Open Market Economy	Socialist Market Economy ¹
Growth Pattern	Trade	Trade	Trade ²
Foreign Policy Objective	Encroachment	Embankment	Engagement
U.S. Interest	Liberalism	Liberalism	Liberalism
Prospects	Economic Super-power	Developed Economies	Market Economy

¹ The incorporation of the socialist market economy as the linchpin of national development strategy was adopted into the Constitution of the People's Republic of China at the First Session of the Eighth National People's Congress on March 29, 1993.

² The importance of trade to China is demonstrated by the pressing need of China to enter the World Trade Organization (WTO), an effort that has been put forth since 1986. See Harold K. Jacobean and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: The University of Michigan Press, 1990).

The above line of thought begins with understanding the foundation of development for Japan, the Four Little Dragons and China. American foreign policy toward these three different types of countries has differed in terms of magnitude. Japan's economic and political structure were heavily transformed by an American strategic and formal policy of U.S. encroachment right after the Second World War.

The connotation of encroachment revealed that the Japanese bellicose military environment was ameliorated by the introduction of a unique constitution during the Occupation period (1945-1952). By the same token, the economic system of Japan was transformed to an open and capitalist

economy that was to strengthen America's interest in containing the spread of communism which was coming from the Soviet Union and China. Such transformation enabled Japan to be integrated and incorporated into the world market system.

In addition, the developmental path of the Four Little Dragons is similar in that they were former colonies. The end of colonization gave rise to the urgent search for a viable path of economic growth. Their limited resources, most notably unreliable land use in the economy collectively adopted an export-led growth strategy.⁵⁰ These countries were influenced by U.S. foreign policy and nurtured under the embankment of U.S. capitalist market forces. The market potential of the U.S. was offered to them as a gesture from the U.S. The nurturing of these small economies reinforced America's interest in building up a ring of capitalist shields which were originally aimed at the counteracting force toward communism.

In contrast to the strategy that the Four Little Dragons had adopted, the People's Republic of China's strategy for development was replaced by the communist government in 1949, China began to be transformed from a capitalist system to a communist system. Learning from the Soviet Union, especially, during the 1950s, China set itself apart from Japan and the Four Little Dragons. U.S. foreign policy during the Cold War was characterized by a policy of containment.

Among others, a strategic triangle was one of the most powerful analytical tools in studying relations among the U.S., China and the former Soviet Union in the Cold War. At that time, relations of the strategic triangle meandered from marriage of the Soviet Union with China in the 1950s to the “rapprochement” of the U.S. with the Soviet Union in the 1960s. The game of changing partners continued in the 1970s and 1980s.⁵¹ The demise of the Soviet Union, however, weakened the strategic triangle as an analytical tool. Furthermore, such a foreign policy pattern enormously reduced the elements of trust while increasing the costs in espionage and the possibility of the escalation of conflicts.⁵²

The Chinese economic system changed as time went on and as the ideological struggle in China ameliorated. The economic system during Mao’s period (1949-76) was mainly socialist and the state’s influence was profound. When China adopted economic reforms after 1978, the economic system gradually moved toward a market economy and relied on market incentives. In 1993, the government of the People’s Republic of China formally adopted a socialist market economy as the linchpin of national development.

Post-Cold War Sino-American relations witness, on the one hand, a collaboration on the theoretical change in the power relations between them and on the other, an opportunity to converge the United States’ interests with China’s internationalization process and economic development. In

other words, U.S. foreign policy toward China has long been established in a modification manner. The existing antagonism between the U.S. and China is somewhat of a short-term setback. However, it will not affect the long-term trajectory of the modification motif of the United States' foreign policy toward China

International affairs have seen a greater emphasis placed on the use of "low politics." For example, economic foreign policy as a mode of cooperation and coordination in regulating foreign policy among nations. The prospect of AML and U.S. foreign policy toward China rely on the reinforcement of America's established power of coordination and the facilitation of the economic regimes such as the World Trade Organization (WTO) in regulating the economic and political order in that region. China's alarming economic growth has moved her closer to a market economy and away from a pure socialist economy. Its role in the global economy, the continuation of its internationalization process and its Third World status are three implications underpinning China's relations with America's AML in the foreseeable future. Nevertheless, the split of mainland China and Taiwan would be an obstacle to Sino-American international cooperation.

As Harry Harding argues:

... if Americans demanded evidence that China was moving toward capitalism and democracy, then much more economic and political liberalism would be necessary. Even some of the more modest American economic objectives required further transformation in China.⁵³

The engendering of the AML not only facilitates American interests in the Asian Pacific region but also circumscribes its foreign relations within a manageable regime of co-ordination and co-operation. The study of China's economic development and its relations with the U.S. coincides, therefore, with the search for political management of the relations between these two powers.

NOTES

¹ Harry Harding, *A Fragile Relationship: the United States and China Since 1972* (Washington, D.C.: The Brookings Institute, 1992): 308.

² W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, 3rd ed. (Cambridge: Cambridge University Press, 1990): 4.

³ Malcolm Gillis, and others, *Economics of Development*, 3rd ed. (New York: W. W. Norton & Company, 1992): 26.

⁴ A. G. Frank, *Capitalism and Underdevelopment in Latin America* (London: Monthly Review Press, 1967). In the early part of this book, Frank tries to describe underdevelopment. Then, he follows by examining Latin America's economic structure, historical underdevelopment and existing situation.

⁵ Bo Sodersten, *International Economics*, 2nd ed. (London: Macmillan, 1980): 98.

⁶ Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982): 44.

⁷ *ibid.*, 217.

⁸ *ibid.*, 44.

⁹ Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. Talcott Parsons (New York: Charles Scribner's Sons, 1958).

¹⁰ *ibid.*, 27.

¹¹ *ibid.*, 11.

¹² Among the others, one of the most controversial contemporary debate about culture started with Samuel P. Huntington's article: "The Clash of Civilization" appeared in *Foreign Affairs* 72, no.3 (Summer 1993), 22-49. See also the tit-for-tat clash of views between Samuel P. Huntington and Pierre Hassner in *The National Interest*, no. 46 (Winter 1996/97), 63-69 and *The National Interest*, no. 47 (Spring 1997), 97-102.

¹³ Peter L. Berger, “An East Asian Development Model?” in *In Search of an East Asian Development Model*, ed. Peter L. Berger and Hsin-Huang Michael Hsiao (New Brunswick: Transaction Publishers, 1988): 7.

¹⁴ *ibid.*, 4.

¹⁵ *ibid.*, 7.

¹⁶ Hsin-Huang Michael Hsiao, “An East Asian Development Model: Empirical Explorations” in *In Search of an East Asian Development Model*, ed. Peter L. Berger and Hsin-Huang Michael Hsiao (New Brunswick: Transaction Publishers, 1988): 18.

¹⁷ *ibid.*

¹⁸ *ibid.*, 20.

¹⁹ Siu-lun Wong, “Modernization and Chinese Cultural Traditions in Hong Kong” in *Confucianism and Economic Development: An Oriental Alternative?*, ed. Hung-chao Tai (Washington, D.C.: The Washington Institute Press, 1989): 166-186.

²⁰ *ibid.*, 174.

²¹ *ibid.*, 176.

²² All together, there are twenty books in *The Analects of Confucius*. They are all dialogues, which distill many abstract ideas of governance into workable disciplines of day-to-day practical norms. See *The Analects of Confucius*, trans. Lao An (Shandong: Shandong Friendship Press, 1992).

²³ *ibid.*, 281.

²⁴ Ezra F. Vogel, *The Four Little Dragons: The Spread of Industrialization in East Asia* (Cambridge: Harvard University Press, 1991): 84.

²⁵ Ironically, his book was challenged from a Chinese perspective. See *China Book Review* (in Chinese), no. 2 (November 1994): 5-14.

²⁶ Harry Harding, *A Fragile Relationship: The United States and China Since 1972* (Washington, D.C.: The Brookings Institution, 1992).

²⁷ William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York: W. W. Norton & Company, 1993).

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- ²⁸ Nicholas R. Lardy, *China in the World Economy* (Washington, D.C.: Institute for International Economics, 1994).
- ²⁹ Thomas W. Robinson and David Shambaugh, eds., *Chinese Foreign Policy: Theory and Practice* (Oxford: Clarendon Press, 1994).
- ³⁰ Robert C. Rowland, *United States Policy Toward the People's Republic of China: An Overview of the Issues* (Lincolnwood, Illinois: National Textbook Company, 1995).
- ³¹ Lynn Goodnight, James Hunter and Eric Truett, eds., *Changing the Policy of the United States Government Toward the People's Republic of China* (Lincolnwood, Illinois: National Textbook Company, 1995).
- ³² Rosemary Foot, *The Practice of Power: U.S. Relations with China Since 1949* (Oxford: Clarendon Press, 1995).
- ³³ Samuel S. Kim, review of *The Practice of Power: U.S. Relations with China Since 1949*, by Rosemary Foot, *American Political Science Review* 91, no. 1 (March 1997): 231.
- ³⁴ Robert S. Ross, *Negotiating Cooperation: The United States and China, 1969-1989* (Stanford: Stanford University Press, 1995).
- ³⁵ Quansheng Zhao, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach* (Hong Kong: Oxford University Press, 1996).
- ³⁶ Kuang-Sheng Liao, *Antiforeignism and Modernization in China*, revised and enlarged, (Hong Kong: The Chinese University Press, 1990).
- ³⁷ This book was also published by a Hong Kong Publisher. Qiang Song, et al., *China Can Say No* (Hong Kong: Ming Pao Publishing Ltd., 1996).
- ³⁸ Cheng Si, "Chinese Say 'No' to the United States," *Beijing Review*, October 21-27, 1996, 13.
- ³⁹ See Richard Bernstein and Ross H. Munro, "The Coming Conflict with America" *Foreign Affairs* 76, no. 2 (March/April 1997): 18-32 and Robert S. Ross, "Beijing as a Conservative Power" *Foreign Affairs* 76, no. 2 (March/April 1997): 33-44. Actually, Richard Bernstein and Ross H. Munro further put forward their ideas in a new book published in 1997. Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Alfred A. Knopf, 1997). See Also Andrew J.

Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress* (New York: W. W. Norton & Company, 1997).

⁴⁰ Peter F. Drucker, *Post-Capitalist Society* (New York: HarperCollins Publishers, Inc., 1993): 181.

⁴¹ James Fallows, *Looking at the Sun: The Rise of the New East Asian Economic and Political System* (New York: Vintage Books, 1995): 352.

⁴² Alfred D. Chandler, Jr., *Scale and Scope: The Dynamic of Industrial Capitalism* (Mass: Harvard University Press, 1990): 593.

⁴³ Instead of being a specific concept, Augmented Market Liberalism (AML) refers to the conventional phenomenon that can be traced back to American foreign policy that affected the world economy at large and the Asian Pacific economy in particular. In a recent article entitled "Paradigm Lost," Richard N. Haass put forth the idea of augmented realism as the principle of American foreign policy in the post-Cold War era. See *Foreign Affairs* 74, no. 1, 43-58. Nevertheless, the term "realism" may coincide with the Cold War's atmosphere of military confrontation. An AML approach will, on the contrary, have a greater implication in the light of enlargement of opportunity to the nation that enjoys being a participant of the world market economy.

⁴⁴ Robert Gilpin, *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987): 72-80. See also Charles P. Kindleberger, *Power and Money: The Economics of International Politics and the Politics of International Economics* (New York: Basic Books, 1970) and Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (New Jersey: Princeton University Press, 1984).

⁴⁵ Seith Faison, "China Export Boom Also Benefits U.S." *International Herald Tribune*, 5 March 1997, 1.

⁴⁶ Literally, encroachment refers to the gradual military, economic and political changes that Japan was forced to change during the early 1950s onward, especially during the Occupation period.

⁴⁷ Embankment is defined as "the act or process of embank". See Webster's New World Dictionary, 3rd College Edition (New York: Prentice Hall, 1994): 442. The embankment or fortification of capitalist market forces closely resembled the economic development of the Four Little Dragons.

⁴⁸ Michael Yahuda, *The International Politics of the Asia-Pacific, 1945-1995* (London: Routledge, 1996): 12.

⁴⁹ Kenneth N. Waltz, "Political Structures" in *Neorealism and Its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986): 84.

⁵⁰ Although many of them adopted the import substitution policy, the policy of export promotion enabled them to begin the path of economic development and the cooperation with the world economy.

⁵¹ Lowell Dittmer, "The Strategic Triangle: A Critical Review" in *The Strategic Triangle: China, the United States and the Soviet Union*, Ilpyong J. Kim, ed., (New York: Paragon House, 1987): 36-40.

⁵² Min Chen, *The Strategic Triangle and Regional Conflicts: Lessons from the Indochina Wars* (Boulder & London: Lynne Rienner Publishers, 1992).

⁵³ Harry Harding, *A Fragile Relationship: The United States and China Since 1972* (Washington, D.C.: The Brookings Institution, 1992): 215-216.

**PART TWO: U.S. CONSTRUCTION OF ASIAN PACIFIC
REGION'S MARKET ECONOMY**

CHAPTER 3

U.S. ENCROACHMENT OF JAPAN

Together, our nations [Japan and the U. S.] have a unique opportunity to help people the world over to learn, to change the way they work, indeed, to transform how they live. We must seize this opportunity because it is also our responsibility.¹

Bill Clinton

Introduction

This chapter will examine the overall foreign policy orientation of the United States in shaping Japan, as the first prong of a capitalist market economy, to accommodate the U.S. long term modification–eradication of the communist threat by peaceful economic means. We will see how the market fortification of Japan was engineered under U.S. foreign policy. By referring to Congressional hearings and formal treaties signed between the U.S. and Japan, the encroachment of Japan under Augmented Market Liberalism will be highly distinguished.

Japan as a Cornerstone of Market Liberalism

To understand the United States' orientation from containment to economic pacification, one should first examine different countries which had various relations with the United States. This line of thought began by the restructuring of Japan from a militarily defeated country to the number one world economic power. It is also my first argument. The restructuring was a cornerstone for the United States to consolidate Asian political stability as well as strengthening the counteraction of swiftly expanding Communism. The Occupation Period from 1945 to 1952 laid the foundation for a new constitution and a democratic model for Japan to abide by.

The post World War II international atmosphere gave rise to the U.S. unique influence. According to John W. Dower, the Asian Pacific region at the time was like a lake to the U.S. One of the ways to protect the lake from communist infringement was "to build Japan into an anti-Communist workshop and base."² Nevertheless, the Occupation Period was clouded with the military containment policy that circumvented the Pacific and was implemented with U.S. naval and military might. Naval bases were situated around the Pacific Ocean, from Hawaii to the Ryukyus, from Guam-Saipan to the Philippines, as a way to counteract the spread of Communism.³ Developed as a model for the achievement of capitalism, Japan was still regarded "as a military base against China and the Soviet Union, but also as

an industrial base supporting the counter-revolutionary cause in Southeast Asia,”⁴ particularly during the Occupation. Japan benefitted from the U.S. foreign policy in the Korean War (1950-53). According to Chalmers Johnson, “the Korean War was in many ways the equivalent for Japan of the Marshall Plan.”⁵ Many war necessities such as clothing were supplied by Japan because of its geographical location and its role as a capitalist cornerstone against communism.

Japan’s internationalization process, its position in the international economy in general and in GATT in particular, was subject to conflicting opinions. Almost all the member countries rejected Japan’s full membership in GATT, except the United States, West Germany, Canada, Italy and the Scandinavian countries.⁶ For example, Britain opposed Japan’s joining for fear that it would not abide by the rules governing member states.⁷ According to Komiya and Itoh, “no country besides Japan has ever been discriminated against in the GATT system, whether legally or illegally.”⁸ Against all odds, in 1955 Japan, bolstered by the United States, joined GATT as a full member. In return, Japan had to voluntarily restrain⁹ its exports to the United States. Its foreign policy afterwards was inevitably allied with the United States. It also reinforced its function as a capitalist shield against communist thrusts from the Northwest.

Japan was greatly assisted by its incorporation into GATT, the largest world trade organization. Her products freely, if not relentlessly, penetrated

the world market, from garments and cotton-wear in the 1960s to automobiles in the 1970s, from computers in the 1980s plus super chips and bio-chemical products in the 1990s.¹⁰ Again, as shown by the enormous support of the United States during the Korean War, Japan's industrial growth was at the top of its own developmental agenda as well as one of the major concerns of the United States in securing the Asian Pacific economy and stability.

The United States' huge Balance of Payment (BOP) deficit in trade with Japan is a clue to understanding the underlying motive of the United States -- a trade-off between Asian Pacific stability together with capitalist consolidation and suffering from a huge BOP deficit. Starting from the "Textile Wrangle" dispute over Japanese cotton in the U.S. market in 1953, Japanese and U.S. trade has always been a contentious topic in their foreign relations. The height of this dispute was over autos and semiconductors. In August 1980, an estimated 250,000 U.S. workers were unemployed due to relentless Japanese imports.¹¹ On September 2, 1986, Japan and the United States reduntant signed the U.S.-Japan Semiconductor Agreement. Japan made three commitments. "1. to halt U.S. and third-market semiconductor dumping; 2. to provide increasing market access for foreign semiconductor companies in the Japanese market; and 3. not to undercut the Agreement in Japan."¹² Nevertheless, the Agreement did not function properly in reducing

Japanese imports to the U.S., which has become a long lasting dilemma for the United States.

Weighing immediate economic benefit versus long-term political stability in East Asia, the United States government still remained tolerant of the trade imbalance. During the Senate hearings of the Subcommittees on Asian and Pacific Affairs in 1987, Don Bonker, a member of the Committee on Foreign Affairs, testified that the leeway given by the United States to Japan and other Asian Pacific countries had far-reaching consequences for maintaining stability in the region. He testified:

Let me just conclude with one other question about USTR's [U.S. Trade Representatives] role with respect to unfair trade practices. Our discussion has been mostly on Japan. That is the subject of this hearing. But we have other countries in the Pacific rim who engage in similar policies, Korea and Taiwan, notably. And interestingly these three countries have been vital to U.S. political and security interests in the Pacific, and we wanted to see these countries strong economically so they could become strong democratically and help us keep the whole Pacific secure.¹³

The American market functioning as a liberalization agent, still, argued Bonker, "provided Japanese industry an ample market for a wide range of products."¹⁴

Economic interdependence and security alliance are the two major loci of U.S.-Japan relations after the Cold War. Although occurring very slowly, the post-Cold War economic relations between Japan and the United States showed improvement. the long and unresolved question of the trade

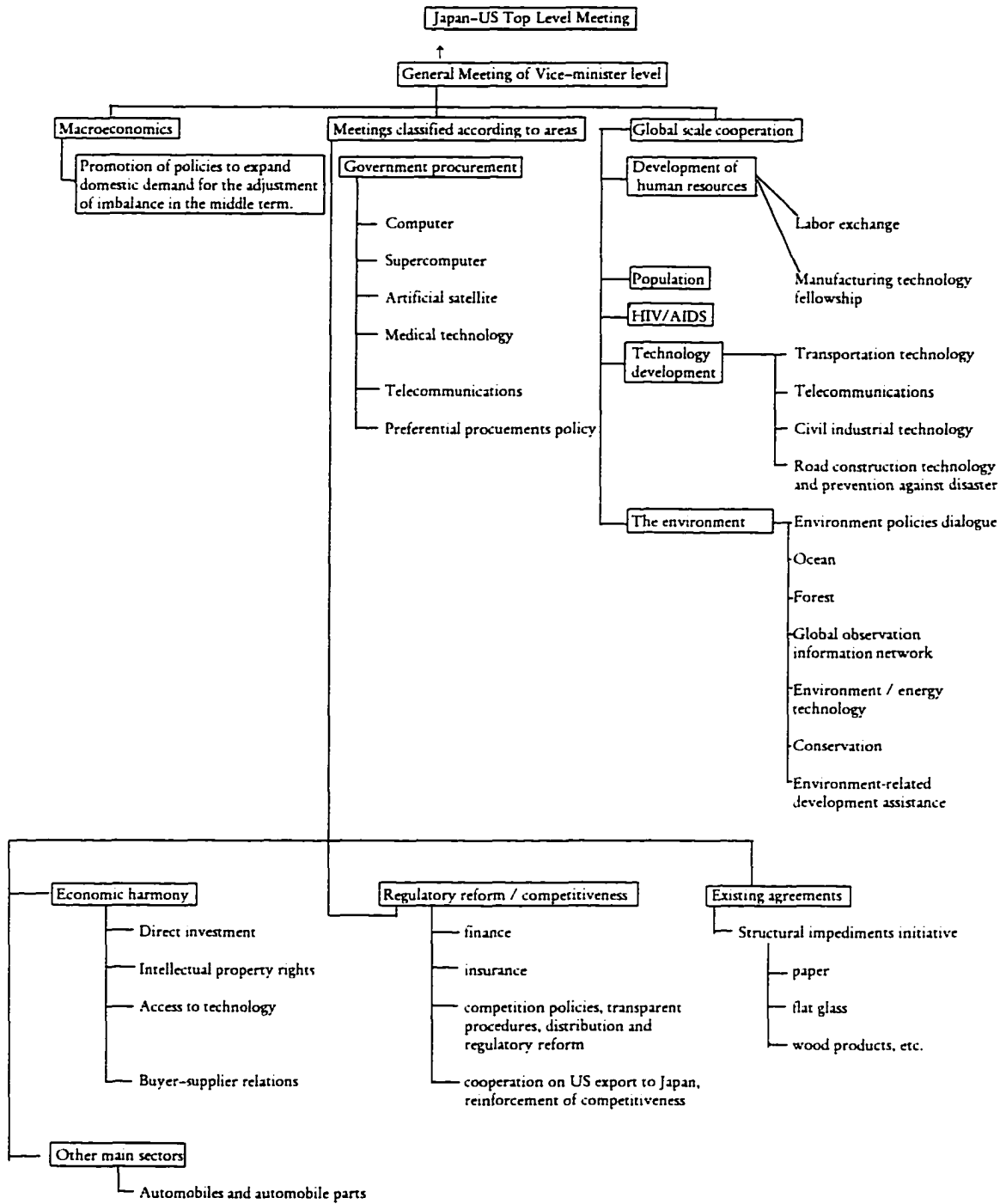
deficit remains the most important economic issue between the two largest trading nations in the world. In May 1989, Japan was cited by the Bush administration for unfair trading under section 301 in the products of supercomputers and satellites.¹⁵ However, the nature of section 301 has stuck on to America's individual trade sanction with little welcome by international organizations such as GATT or the World Trade Organization (WTO). U. S. and Japanese trade negotiations still consist of continuous bilateral talks and conferences. The Japan-U.S. Structural Impediments Initiative (SII) talks ended in June 1990. Japan agreed to spend 430 trillion yen for public works over 10 years. It also completed a thorough review of the then existing land taxation reform, hoping to liberate the Japanese investment atmosphere by initiating more favorable terms for foreign investors.¹⁶

A transformation of U.S. "get tough" policies economic coercion to "get smart" policies of engagement was based on talks precipitated in the 1990s.¹⁷ As suggested by Paula Stern, former chairwoman of the U. S. International Trade Commission, "the United States and Japan should work toward creation of an international code of investment to limit governmental interference in companies' international operations and a code on competition to harmonize antitrust policy."¹⁸ In that sense, future U.S.-Japan talks should rely more on an institutional framework and existing codes of conduct rather than a mercantilist focus on tariffs or sanctions. The

1993 Framework Talk between the U.S. and Japan facilitated negotiation and cooperation in a formal and regular manner.

The full name of The Framework Talk was “A Joint Declaration on the Framework for a New Economic Partnership Between Japan and the US.” This all-embracing declaration acted as an agenda that prepares both countries to identify such areas in which cooperation or mutual exchange of ideas can take place. Apart from trade and commodities, many up-and-coming problems are also ready to be resolved.

Figure 3.1 An Outline of Japan-US Framework Talks



Source: *White Paper on International Trade Japan 1994* (Singapore: McGraw-Hill with the collaboration with the Ministry of International Trade & Industry (MITI), 1995), 127.

by the efforts of these two countries. Instead of mitigating the importance of trade issues, the Framework highlights Japanese involvement in world affairs, of course under U.S. auspices. The declaration postulates a “common philosophy” underlying the Japan-U.S. alliance, “that a combination of developments – shifting economic relations in East Asia, pressure inside Japan for that country to play a hegemonic role in the area, and the end of the Soviet military threat – could create a significant change in the relations between the United States and Japan.”¹⁹ Nevertheless, the visionary Framework Talks can do little in reducing the immediate huge trade deficit of the United States. The bilateral trade negotiations in February 1994 between President Bill Clinton and Japanese Prime Minister Masahiro Hosokawa ended in vain. Japan rejected America’s demands for the opening of autos and auto parts, insurance, medical equipment and telecommunications markets on the bases that the “quantifiable measures of progress on the opening of those markets” will inevitably “permit the U.S. to establish import targets for its products in Japan.”²⁰ The collapse of the talks caused the U.S. trade deficits with Japan to jump to a record high of \$66 billion in 1994, of which 60 percent was due to imports of auto parts or cars.²¹

The plight of the trade deficit remained the same in early 1995. In April of that year, the U.S. trade deficit with Japan escalated to \$5,874 million.²² Resorting to traditional carrots and stakes, the United States

threatened the Japanese government with an ultimatum of \$5.9 billion worth of punitive tariffs on luxury Japanese cars made by Honda, Toyota, Nissan, Mazda and Mitsubishi as most of them are made solely in Japan, with 30 days of comments.²³ Their economic brinkmanship ended after Japan agreed to purchase \$9 billion additional auto parts from the United States.²⁴

If trade liberalization and market openness are two major objectives of the U.S., the successful lesson in the auto industries will spillover to other sectors such as insurance and fruit industries. More negotiations on the opening of the Japanese insurance market were carried out in July 1996 between U.S. Trade Representative Charlene Barshefsky and her counterpart from Japan, Trade Minister Shunpei Tsukahara. It is not yet clear whether the use of tariff threats worked in this circumstance. Regardless the trade antagonism between the U.S. and Japan does not damage their security alliance. The security alliance and foreign relations between Japan and the U.S. are benefitted by the gesture of the Japan relaxing its market.

While the U.S. government acts as Dr. Jekyll and Mr. Hyde in its economic relations with Japan (allowing substantial trade deficits each year while threatening Japan with tariffs to open its market), its security and military relations with Japan are more like Jack and Jill. If the end of the Cold War is said to be the watershed of their military relationship, their relations are now *de facto* experiencing little alteration. The following table lists selected defense treaties between the U.S. and Japan:

Figure 3.2. *Treaties of Defense Signed by the U.S. and Japan (1985-1988) (Selected)*

Date	Agreements	Concerns
July 5, 1985	Assistance	Japan contributes 145,865,000 yen of military expenditure to the U.S. Forces (1985-1986)
June 17, 1986	Assistance	Japan contributes 150,990,000 yen of military expenditure of the U.S. Forces (1986-1987)
September 10, 1985	Acquisition and Production of P-3C Aircraft	Japan acquires 30 P-3C weapon systems and related equipment and materials
January 21, 1986	Assistance	Training of Japanese self-defense forces
January 20, 1987	XSH-60J Weapon System	The development of weapon systems by Japan
August 23, 1988	Financial Contribution	Japan contributes 153,979,000 yen of military expenditure to the U.S. Forces (1988-1989)

1 The Mutual Defense Assistance Agreement between Japan and the United States of America was first signed in Tokyo on March 8, 1954.

Source: Department of State, "Defense Assistance: Agreement Between the United States of America and Japan," 5 July 1985, *Treaties and Other International Acts Series* (TIAS) 12000, no. 2957, 5; Department of State, "Defense: Acquisition and Production of P-3C Aircraft: Agreement Between the United States of America and Japan," 10 September 1985, TIAS 12017, no. 3585, 2-3; Department of State, "Defense: Agreement Between the United States of America and Japan," 21 January 1986, TIAS 12005, no. 2957, 2-3; Department of State, "Defense Assistance: Agreement Between the United States of America and Japan," 17 July 1986, TIAS 12009, no. 2957, 5; Department of State, "Defense: XSH-60J Weapon System: Agreement Between the United States of America and Japan," 20 January 1987, TIAS 12014, no. 2957, 2-3 and Department of State, "Defense: Financial Contribution: Agreement Between the United States of America and Japan," 23 August 1988, TIAS 12028, no. 2957, 5.

Right after the demise of the former Soviet Union, many people questioned the presence of the U.S. troops in the Asia Pacific and the Japanese-American Security Treaty, as the common threat from the Soviet Union vanished. However, the renewal of their Mutual Security Treaty on June 23, 1990 consolidated their alliance.²⁵ In a nutshell, Japan's security relations with the United States after the Cold War transformed from comprehensive security under the protective umbrella of the U.S. to mutual cooperation with America in handling Asian and even international security issues, keeping the peace and protecting Asia's stability.

In terms of security and military cooperation, the U.S.–Japan security issue played an important role than that during the Cold War. Because of the fall of the Soviet Union, the unique hegemonic role of the U.S. in the Asia

Pacific region has decreased. The U.S. has to find more justification for maintaining large numbers of troops in Japan. The potential threat of North Korea, the expansion of China (mainly economical) and the volatile South East Asian economy and political environment, have been deemed enough reason to maintain security ties with Japan. According to Song Young-sun, director of Japan Studies in Korea, the significance of the U.S.–Japan alliance lies in the joint R&D projects in defense industries (e.g. Fighter Support Experimental, FSX), continuation of America’s East Asian Policy and the reaction of Japan’s neighbors to Japan.²⁶

The United States-Japan cooperation in military R&D and the stationing of U.S. troops in Japan are *de facto* the most salient form of cooperation. According to Hisashi Nakamura and Malcom Dando, military R&D allows Japan and the U.S. to co-develop defense equipment and research military technology.²⁷ The mutual benefit reveals the exact nature of their post-Cold War relations. On the one hand, Japan is obligated to the leadership and hegemonic role of the United States. On the other hand, the U.S. depends on technological transfers from Japan. As Peter J. Katzenstein and Nobuo Okawara contend:

The increase in Japan’s defense capabilities and the creation of a national option, brought about by linking Japan’s national security to that of the United States, will undoubtedly have an effect on how Japan, its Asian neighbors, and the United States will react politically in an era of profound international and domestic change.²⁸

The U.S. troops stationed in Japan shows how close the link is between the United States and Japan. America has over 44,800 troops in Japan (mainly in Okinawa), compared to 36,250 in South Korea, 7,050 in Guam, 43,800 in Hawaii, 140 in Singapore and 370 in Australia.²⁹ A crisis struck when a 12-year-old Japanese girl was raped by three U.S. Marines in Okinawa in 1995. Some Japanese started questioning the maintenance of large numbers of U.S. troops in Japan, with Japan paying all expenses.³⁰ To restore the confidence of the Japanese and uphold U.S. interests in the Asia Pacific, President Clinton managed to sign a Joint Security Declaration with Japanese Prime Minister Hashimoto on April 17, 1996 and even called it “the cornerstone of stability throughout Asia.”³¹ A Joint Action Plan was also announced to cope with the nuisance U.S. troops caused in Okinawa, which included noise reducing and decreasing training and exercises in Okinawa.³² This Joint Declaration called for mutual security cooperation³³ and reinforced U.S. interest in the Asia Pacific. At the same time, it provided more latitude for Japan in re-shaping her political role.

To move the focus from Japan to the Asian NIEs, we can discern more clearly how Augmented Market Liberalism facilitates the long established influence of U.S. foreign policy. For China in particular, the objective of the United States is more explicit. According to Warren Christopher, former United States Secretary of State, “Our policy will seek to facilitate a peaceful evolution of China from communism to

democracy.”³⁴ Before turning to China, in the next chapter I will examine the embankment of the established market fortress of the Four Little Dragons, which played a role in the opening of the Chinese economy.

NOTES

¹ The statement was made during the U.S. president Bill Clinton's address to the Diet in Japan on 18 April 1996. See United States Information Service, "Transcript: President Clinton's Address to the Diet in Japan" *Foreign Policy Backgrounder* (19 April 1996): 7.

² John W. Dower, "Occupied Japan and the American Lake, 1945-1950" in *America's Asia: Dissenting Essays on Asian-American Relations*, edited by Edward Friedman & Mark Selden (New York: Vintage Books, 1971): 148.

³ The 33 naval bases at 22 different locations in the Pacific were:

- 1 Main Naval Base: Hawaii
- 1 Major Operating Base: Guam-Saipan
- 1 Major Operating Base, Caretaker Status: Manus
- 2 Secondary Operating & Repair Bases: Adak, Philippines
- 6 Secondary Bases, Small: Kodiak, Dutch Harbor, Attu, Midway, Samoa, Ryukyus
- 7 Air Bases: Johnston Island, Palmyra, Canton Island, Majuro, Wake, Marcus, Iwo Jima
- 4 Combined Air Bases and Fleet Anchorages: Kwajalein, Eniwetok, Truk, Palau
- 11 Air Fields: Hawaii, Kodiak, Dutch Harbor, Adak, Attu, Midway, Samoa, Manus, Guam-Saipan, Philippines, Ryukyus

Adapted from *ibid.*, 161.

⁴ *ibid.*, 182.

⁵ Chalmers Johnson, *Conspiracy at Matsukawa* (Berkeley: University of California Press, 1973): 23.

⁶ See Ryutaro Komiya and Motoshige Itoh, "Japan's International Trade and Trade Policy, 1955-1984" in Takashi Inoguchi and Daniel I. Okimoto, eds., *The Political Economy of Japan, Vol. 2 The Changing International Context* (Stanford: Stanford University Press, 1988): 178.

⁷ W. G. Beasley, *The Rise of Modern Japan* (London: Weidenfeld and Nicolson, 1990): 248.

⁸ Komiya and Itoh, *op. cit.*, 178.

⁹ It was called “voluntary export restrictions” (VERs). See *ibid.*, 179-180.

¹⁰ Among others, the automobile and computer (including chips) industries became bones of contention between the United States and Japan in the course of trade negotiation. For the Japanese automobile industry’s development, please refer to Michael A. Cusumano, *The Japanese Automobile Industry: Technology and Management at Nissan and Toyota* (Massachusetts: Harvard University Press, 1985). For more information about the fights between the United States and Japan concerning the computer and semiconductor industries, refer to Clyde V. Prestowitz, Jr., *Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It* (New York: Basic Books, Inc., Publishers, 1988): chapter 9 and 10.

¹¹ R. Komiya, M. Okuno and K. Suzumura, eds., *Industrial Policy of Japan* (London: Academic Press, Inc., 1988): 318.

¹² House Committee on Foreign Affairs, *Developments in United States-Japan Economic Relations, May 1987: Hearings before the Subcommittees on Asian and Pacific Affairs*, 100th Cong., 1st sess., 23 April and 5 May 1987, 84.

¹³ *ibid.*, 148.

¹⁴ *ibid.*, 5.

¹⁵ Mike M. Mochizuki, “Japan and the Strategic Quadrangle” in Michael Mandelbaum ed., *The Strategic Quadrangle: Russia, China, Japan, and the United States in East Asia* (New York: Council on Foreign Relations Press, 1995): 126.

¹⁶ *Japan Economic Almanac 1991* (Tokyo: The Nikkei Weekly, Nihon Keizai Shimbun Inc., 1991): 9.

¹⁷ Paula Stern “U. S.-Japan Trade: Get Smart, Not Just Tough” *Asia Pacific Issues*, no. 12 (East West Center, April 1994): 1-8.

¹⁸ *ibid.*, 4.

¹⁹ Martin Feldstein, “National Security Aspects of United States-Japan Economic Relations in the Pacific Asian Region” in Jeffrey A. Prongel and Miles Kahler, eds., *Regionalism and Rivalry: Japan and the United States in Pacific Asia* (Chicago: The University of Chicago Press, 1993): 454.

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- ²⁰ *Time* magazine, 21 February 1994, 15.
- ²¹ *International Herald Tribune*, 17 May 1995, 1.
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- ²⁹ *Japan Economic Almanac 1996*, (Tokyo: The Nikkei Weekly, Nihon Keizai Shimbun, Inc., 1995): 33.
- ³⁰ Michael Blaker, “Japan in 1995: A Year of Natural and Other Disasters” *Asian Survey* 35, no. 1 (January 1996): 48.
- ³¹ United States Information Service “U. S.-Japan Partnership Cornerstone of Asian Stability” in *Foreign Policy Backgrounder* (19 April 1996): 1.
- ³² *ibid.*, 5.
- ³³ *EIU Country Forecast, Japan, 2nd Quarter* (London: The Economist Intelligent Unit Limited, 1996): 9.
- ³⁴ William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York: W. W. Norton & Company, 1993): 365.

CHAPTER 4

U.S. EMBANKMENT OF THE FOUR LITTLE DRAGONS

A belief in progress and economic liberty would have taken Asia part of the way to prosperity, but it was free trade which gave Asia its big break. Access to North American and West European markets helped East and South-East Asian economies to grow on the back of their exports.¹

Chris Patten

Introduction

This chapter attempts to study how and to what extent U.S. foreign policy played the role of embanking a chain of capitalist market economies in East and South-east Asia. The Four Little Dragons, Hong Kong, Taiwan, South Korea and Singapore, were especially affected by such embankment. This was partly because all of them are small and open economies susceptible to outside influence, particularly concerning trade and export. Lucian W. Pye describes the four having a “close involvement with the United States, both in terms of direct U.S. interventions – as during the occupation of Japan, the Korean War and Korea’s subsequent recovering, and the years of

substantial economic and military aid to Taiwan – and in terms of their continuing dependence upon access to the U.S. market....”² Nevertheless, if one turns to the subject of international relations with the United States in foreign policy orientation, one discerns a dramatic and more subtle picture of their genuine cause of development – the pulling effect of the United States’ market and deliberate encouragement.

Furthermore, the extent of America’s foreign policy has been affecting the growth of the Four Little Dragons in the provision of a market impetus to serve as their guiding post. In the Final Reports of the Tenth American Assembly prepared by the American Assembly, the importance of U.S. assistance to the Far East is used as a foreign policy tool. The Report reminded that

It is highly important that the Republic of Korea and Taiwan should increasingly demonstrate the success of cooperation with the free world . An important element in producing this result will be the steady development of a sense of hope and confidence in themselves and in their future which comes from economic progress and the tangible evidence that their efforts in this direction bear fruit.³

Given their economic growth, the result is a contrast between communist inefficiency and capitalist prosperity. I will discuss each of the Four Dragons below.

a.) Hong Kong:

Hong Kong's success, as argued by many analysts, is mainly due to its practice of *laissez-faire* or later, the government's positive non-intervention in industrial development and the construction of macro-economic policies.⁴ Moreover, the 1960s to the 1990s also saw the policies of transforming Hong Kong from an entrepot of trade to a manufacturer in light industries, and from the base of labor-intensive knitting and garment production to the production of capital intensive electronics. Furthermore some people also attribute the economic development of Hong Kong to factors such as the overall structure of Hong Kong's economy, the financial system, the vigorous trade sectors and the legal system.⁵

At a glance, the aforementioned explanations are necessary conditions for Hong Kong's development, but not sufficient. Hong Kong's small and open economy is susceptible to be influenced by the world market. In order to see this, Hong Kong's relations with the United States need to be explained.

Access to the United States market enormously affected the growth of Hong Kong's political economy. America has tremendous interests in Hong Kong, economic and political. The U.S. has more than 900 firms in Hong Kong. Furthermore, Hong Kong houses more than 200, 70 percent out of the entire headquarters of U.S. firms that conduct business in Asia. The

American Chamber of Commerce in Hong Kong is the largest among the others American Chamber in the world. Most U.S. firms that do business with China enter the mainland via Hong Kong. Of the \$9 billion worth of U.S. exports to China in 1993, more than 36 percent passed through Hong Kong.⁶

As a colony of the British empire for more than 150 years, Hong Kong's de-colonization process will be very different from other former colonial states such as Malaysia, Singapore, Indonesia and Vietnam.⁷ The transformation of sovereignty from Britain to the People's Republic of China will take place on July 1, 1997 as set by the Joint Declaration in 1984. To facilitate the monitoring of Hong Kong's evolution, the U.S. promulgated the United States-Hong Kong Policy Act in 1992. The agreement in this Act allows the U.S. to monitor Hong Kong's political development after the handover. The United States is interested in the stability of Hong Kong including: 1. a smooth transition from British to Chinese sovereignty; 2. the protection of human rights in Hong Kong; 3. the democratization process; and 4. the strengthening of relations between Hong Kong and the U.S.⁸

The history of U.S. interests in Hong Kong can be traced back to 1850s when about 20 missionaries and merchants gathered together in Hong Kong.⁹ The relation between Hong Kong's economic growth and the

facilitation of America foreign policy did not take place until the World War II.

A dramatic change in the political economy of Hong Kong was initiated by the decision between the U.S. and Hong Kong governments regarding illegal immigrants from mainland China during the early 1960s. It was clearly documented in a 1962 hearing of the Congressional Subcommittee to Investigate Problems Connected with Refugees and Escapees¹⁰ that the development of Hong Kong's economy was not arbitrary. Rather, it was orchestrated by the Hong Kong government with the consensus of the United States. Tackling the immediate problems of a large influx of refugees required the wholehearted support of the United States to open its market. The policy proved to be very effective. The refugee problems eased and Hong Kong's economy developed. The keynote speech made during the Congressional hearing noted the fundamental change:

The first way in which the outside world can help this colony with its burdens is to assure for the limited range of goods we can produce efficiently. These people's welfare depends upon our trade and, if our trade can be maintained with adequate scope for growth and without artificial restrictions, there is every chance that we can complete a task we first set ourselves 12 years ago. But the stifling of our exports would, sooner rather than later, transform this dynamic community into an international pauper and would thus create conditions in which massive and wholesale relief would be the only remedy.¹¹

Moreover, according to U. S. Senator Kenneth B. Keating, who testified at the hearing, since "... this exodus can become a major political

and psychological victory for the West in the conflict with communism,"¹² the logical action of the U. S. government is to use of Hong Kong as a habitat for the refugees, demonstrating the prosperity of capitalism.

Hong Kong trade statistics indicate that exports to the United States increased, particularly after the 1962 hearing and the opening of the United States' market.

Table 4.1 Area Distribution of Hong Kong External Trade (in percent)

Countries	1960	1965	1970	1975	1980
Import					
United States	12.3	11.1	13.2	11.8	11.8
United Kingdom	11.3	10.7	8.6	5.1	4.9
China	20.2	25.9	16.1	20.3	19.7
Japan	16.1	17.3	23.8	20.9	23
Other	40.1	35	38.3	41.9	40.6
Singapore		2.7	2	5.7	6.6
Taiwan		1.7	4.7	5.8	7.1
All Countries	100	100	100	100	100
Export					
United States	26	34.2	42	32.1	33.1
United Kingdom	20.4	17.1	12	12.2	10
West Germany	3.7	7.4	8	12.5	10.8
Japan	3.5	2.6	4	4.2	3.4
Canada	2.7	2.7	3.2	3.4	2.6
Australia	3	2.7	2.9	4.5	2.9
Singapore		2.8	2.3	2.7	2.6
Other Countries	40.7	30.5	25.6	28.4	34.6
All Countries	100	100	100	100	100
N. America & Europe	57.1	69.4	74.2	71.9	69.8

Source: Census and Statistics Department, *Hong Kong Trade Statistics*, various issues.

As seen in Table 4.1, the increase of Hong Kong exports to the U.S. was steady, averaging 8 percent a year between 1960 to 1970. The decrease in following years was due to the climax of the Vietnam War and the expansion of other economies such as Japan and former West Germany.

The increase of trade and Hong Kong's exports market propelled the economic development of Hong Kong and stabilized the unsteady relation then between the citizens and the government. This harmonization between society and government was later elaborated upon by Hsin-Huang Michael Hsiao. He commented: "Without favorable world economic conditions and United States' support, East Asia states probably could not have enjoyed such autonomy and strength in state-society relationships."¹³ The opening of the United States domestic market to Hong Kong reaffirmed Bill Warren's study on the positive aspects of trade relations between developing and developed countries.¹⁴ On the contrary, this question cannot be answered by A. G. Frank solely, as addressed in chapter 2.¹⁵ Neo-Marxist Immanuel Wallerstein contended that "the *middle* (italics in original) stratum [semi-periphery] is both exploited and exploiter."¹⁶ In that sense, it can be argued that the opening of Hong Kong's export market is a subtle form of expansion of capitalism. The economic development of Hong Kong revealed the political function of the U.S. foreign policy - facilitating a capitalist prong to stop the spread of communism. Moreover, the result is a non-zero-sum return in which both countries/places can benefit from the joining with the world market economy. A more detailed discussion of the gain from trade is provided by Bill Warren.¹⁷ He argued that a more subtle and precise calculation of gains from trade is necessary if we want to know how developing countries can actually benefit from trading with the developed

countries.¹⁸ His argument challenged greatly the marxist view on the exploitation nature of the developed countries over the developing countries through trade and exchange.

In addition to economic benefits, the opening of the U.S. market to Hong Kong's exports also encouraged Hong Kong to participate in the world economy. Hong Kong participates in more than 40 international organizations, some of which are indicated in the following chart.

Figure 4.1 Hong Kong's Participation in International Organizations (Selected)

Asian Development Bank
Asian and Pacific Development Center
Asian-Pacific Economic Forum
General Agreement on Tariffs and Trade (GATT)/ World Trade Organization (WTO)
International Bank for Reconstruction and Development (World Bank)
International Monetary Fund
International Labor Organization
International Telecommunication Union
United Nations Commission on Narcotic Drugs
United Nations Conference on Trade and Development
World Health Organization
World Intellectual Property

Source: United States Information Service, "A Report to Congress on Conditions in Hong Kong as of 03/31/93 as Required by Sec. 301 of the United States-Hong Kong Policy Act of 1992" in *Foreign Policy Backgrounder* (April 6, 1993): 13-14.

According to Richard W. Mueller, Consul General of the United States in Hong Kong, "U.S. interests in Hong Kong are extensive and have grown along with the territory's prosperity and role in the international community. These interests will be maintained as sovereignty over Hong Kong shifts from Hong Kong's dynamism continue."¹⁹ To maintain Hong Kong's international competitiveness, Mueller maintained that "The U.S. has

been encouraged by the Joint Liaison Group's (JLG) action in extending 170 multilateral treaties currently applying to Hong Kong through the U.K....”²⁰

What is the dynamism of Hong Kong? It is the facilitation of the world market economy in moving some developing countries from poverty to prosperity. The Governor of Hong Kong, Chris Patten, also maintained that “The new economic era worked because the United States economy took off after the war [Second World War] and pulled the rest of the free-trade, free-market world with it. Access to the markets of North America and Western Europe made possible the growth of Asian economies.”²¹ In *The Economist*, Patten later concluded that there were two basic factors that gave rise to Asian development: a belief in progress and the pursuit of market-oriented policies.²²

The experience of Hong Kong demonstrates that there is a link between its prosperity and economic take-off. The following section will be devoted to the study of South Korea to see how these factors contributed to its growth.

b.) South Korea:

The end of the Korean War (1950-53) not only split the country into two, but also fortified U.S. influence and the quadrangle relations in

Northeast Asia with the Soviet Union and China.²³ It also bolstered South Korea's capitalist nature. In his original research on the course of Korea's capitalism, Carter J. Eckert maintained that "after Liberation, and especially after the Korean War, the United States was willing to some extent to assume the role of capitalist (elder brother) in Korea"²⁴ With the big brother giving military and economic assistance, the development of the Korean economy was not a random phenomenon but a salient case of the U.S. AML, which resembled the situation in Japan. South Korea's formal relations with the U.S. began with their Mutual Defense Treaty signed on October 1, 1953 (implemented in November 17, 1954) by John Foster Dulles and Y. T. Pyun. But there was a difference in attitude between the two cases. Japan was regarded as an aggressor that needed to be restrained, while South Korea was considered a potential victim susceptible to "external armed attack"²⁵

As seen from Article III of the Mutual Defense Treaty, the gist of the U.S. and South Korea interests is clear:

Each Party recognizes that an armed attack in the Pacific area on either of the Parties in territories now under their respective administrative control, or hereafter recognized by one of the Parties as lawfully brought under the administrative control of the other, would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.²⁶

The 1950s and the 1960s were characterized by military confrontation between the communist bloc led by the Soviet Union and China and the capitalist bloc led by the United States and Japan. To strengthen the capitalist bloc, the U.S. gave more than \$4 billion in economic and military aid to South Korea between 1953 to 1961.²⁷ The Military Assistance Program (MAP) in the provided troops, aircraft such as the C-45, and training.²⁸ The economic aid consisted of program loans and technical assistance.²⁹ During the height of the Cold War (1965-69), U.S. defense expenditures increased tremendously. In 1965, the U.S. spent \$83 million on defense, in 1967, \$126 million; and in 1969, \$342 million.³⁰ The expenditure was mainly to pay South Korean combat troops in Vietnam.³¹

The economic well-being and the development of South Korea was considered by William J. Porter, then U. S. Ambassador in South Korea, as a relatively slight preference as an economic environment for “normal competitive export” for Korea’s exports during a congressional hearing.³² Although the chairman of these hearings, J. W. Fulbright might have regarded this circumstance as “incidental,” markets from the U.S. and Japan to some in Southeast Asia and South America, opened to South Korean exports and were inevitably under the auspices of the U.S.³³ As can be seen in Table 4.2, the U.S. occupied the lion’s share of South Korea’s exports during the 1970s and the 1980s.

Table 4. 2 Merchandise Exports by Principal Countries (1976-1985)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
	US\$ million									
United States	2,493	3,119	4,058	4,374	4,607	5,661	6,243	8,245	10,479	10,754
Japan	1,802	2,148	2,627	3,353	3,039	3,503	3,388	3,404	4,602	4,543
Hong Kong	325	342	385	531	823	1,155	904	818	1,281	1,566
Indonesia	49	69	103	195	366	370	383	252	254	196
United Kingdom	254	304	393	542	573	705	1,103	1,005	956	913
Germany	398	480	663	845	875	804	758	775	924	979
Others	2,394	3,585	4,482	5,216	7,222	9,056	9,074	9,946	10,749	11,332
Total	7,715	10,047	12,711	15,056	17,505	21,254	21,853	24,445	29,245	30,283

Source: Korea: *Managing the Industrial Transition, Vol. I, The Conduct of Industrial Policy* (Washington, D. C.: The World Bank, 1987): 158.

According to Hagen Koo and Eun Mee Kim, Syngman Rhee in the 1950s and Park Chung Hee in the 1960s, used the concept of South Korea as a bridgehead against communism as a bargaining chip for South Korea's development.³⁴ Although Park Chung Hee took office by military coup on May 16, 1961, his re-organization of the major capitalists (known as *chaebol*) and their alliances with the government on industrialization projects rejuvenated South Korea's economy. Koo and Kim contended that "It was this narrow development alliance between the military regime and select large capitalists that eventually shaped the capital accumulation process during the period of export-oriented industrialization."³⁵ South Korea's economic growth is generally characterized the large-scale conglomeration of such industrial powers and reliance on market forces. Alice H. Amsden, in her book *Asia's Next Giant*, mentioned that "in the presence of large concentrations of market power, reliance on the market mechanism for reform appears to produce some perverse results, not just in Latin America

but also in the Far East.”³⁶ Relying on the market, South Korea’s average GNP growth from 1962 to 1984 remained at 8.2 percent per year.³⁷ The post-Cold War development of *chaebol* has seen expansion into East European countries. Samsung took the first initiative to set foot in Hungary to invest in color television factories.³⁸ Other *chaebols* followed suit; for example, the LG Group (formerly the Lucky-Gold Star) invested \$410 million in Moscow and the Daewoo Motor committed \$1.1 billion to modernize Poland’s car production.³⁹

In December 1996, South Korea became the 29th member of the Organization for Economic Cooperation and Development (OECD), a recognition of its remarkable economic growth and development.⁴⁰ No sooner had South Korea joined than a new labor law was launched that allowed entrepreneurs to dismiss workers easily and tried to stop the downturn in Korea’s economic competitiveness.⁴¹ This abrupt change in labor policy resulted in an outcry from unions and a nationwide strike. In other words, South Korea has been self-generated to compete in the international market economy. The future continued growth of Korea depends on the international economy. The next section attempts to investigate the relations between Taiwan and the U.S. by using the logic of Augmented Market Liberalism.

c.) Taiwan:

The political, economic and strategic position of Taiwan was not only included in the U.S. long-term interest in the Far East but also became an irreconcilable antagonistic issue with Mainland China. The U.S. perceives Taiwan as its tangible asset because “Taiwan clearly is capable of fulfilling its role by providing expeditious support to deter aggression and promote economic development throughout the region.”⁴² The fulfillment of Taiwan’s role as the fortress against the spread of communism, nevertheless, provokes a sensitive nerve for China – the issue of sovereignty and integrity. Taiwan has long been regarded as the “renegade province” of the Mainland. According to Deng Xiaoping’s comment on 26 June 1982, the formal position of the Mainland on Taiwan issues is that there cannot be a “complete self-determination”; however, the internal and municipal policy will be entirely up to the Taiwan people’s jurisdiction.⁴³ It, therefore, demonstrates how important an issue Taiwan has become in Sino-America relations.

The historical relationship between Taiwan and the United States exhibits consolidated cooperation in many facets. Militarily, the Seventh Fleet launched by Truman in 1950 demonstrated the wholehearted support of the United States in combating an attempted communist invasion by mainland China.⁴⁴ Also, this movement activated the hostile feelings between the United States and Mainland China, particularly in the late

fifties.⁴⁵ The twists and turns of the United States and Taiwan's foreign relations arrived when Mainland China and the United States normalized their relations through Nixon's February 1972 visit to China. The visit resulted in the Shanghai *Communiqué* signed on the 27th of February 1972. U.S.-Taiwan relations were "denormalized". By 1979, U.S.-PRC diplomatic relations were formalized. The United States' embassy in Taiwan "degraded" and became the American Institute. However, it still continued the venue for many unofficial U.S.-Taiwan foreign relations. In addition, U.S.-Taiwan relations did not terminate because the Taiwan Relations Act went into effect on January 1, 1979.

The significance of the Taiwan Relations Act, according to Harry Harding, was an act which even "from the Chinese perspective, simply perpetuated the American commitment to the island's security in a slightly different form."⁴⁶ Boldly argued by Ray Cline, senior associate of the Georgetown Center for Strategic and International Studies, before the Subcommittee on Separation of Powers on Taiwan issue, the Taiwan Relations Act only reflected the political reality between China and Taiwan.⁴⁷ He testified:

The truth, as any idiot can tell you, by looking at the map and history of the 40 years, is that in terms of present day political organization, there are plainly two Chinas, two organizations of people, with authorities to pass their laws, duly constituted, in two quite different political systems, in de facto control of their separate territories and people. Both claim to be, by right, the government of one China, or both Chinas, if you like, but

actually, de facto, neither has been able to translate this claim into control of the population to territory of the other, since the People's Republic of China seized military control of the mainland in 1949.⁴⁸

The Taiwan Relations Act, thereafter, became an instrument for the United States to manipulate her Chinese politics. By the same token, the "magic" Act bolstered Taiwan's security and, inevitably, fostered her pace for democratization at home and internationalization abroad. These acts serve as a thermometer to test their foreign relations. And, just recently, the degree of this thermometer indicates that closer relations between Taiwan and the United States have been reached. Together with other reasons, there is a reason for U.S.-Taiwan relations to become strengthen.

Second, according to Michel Oksenberg, the United States government would not allow "any unilateral action by Washington, Beijing or Taipei to alter this framework - such as through threats or use of force, excessive arms purchases or seeking change in formal status - would jeopardize American objectives".⁴⁹ The basic American objectives are the core element in maintaining a peaceful Asian Pacific region and the unobstructed economic growth between Mainland China and Taiwan.

Finally, the democratization and political openness of Taiwan nowadays provide her with a stronger bargaining power to lure the support of the American Congress's approval of military intervention if military confrontation between Taiwan and Mainland China were to happen.⁵⁰

Theoretically speaking, the belief of the importance of democracy is shared between the United States and Taiwan. When outside force is perceived as jeopardizing this common ideological ground, the U.S. government may react appropriately because “Once ideas become embedded in rules and norms - that is once they become institutionalized - they constrain public policy.”⁵¹

Looking at this issue from an economic point of view, Taiwan relied heavily on American’s aid in the 1950s and 1960s. Thomas Gold uses Taiwan’s economic development as a case study to demonstrate that the so-called Taiwan miracle is derived from the complex incorporation of government policy, colonial legacies from Japan (1895-1945), the development aid from the United States and the interplay between the society and the state.⁵² He contends that “Taiwan’s specific situation of dependency yielded development, not underdevelopment” because “the social dislocations commonly associated with dependency, such as an impoverished rural sector and glaring inequality, have been largely eliminated.”⁵³ Clearly, the limitation of the dependency approach in the light of Taiwan’s development is astonishing, particularly since she is a small and open economy which is, theoretically, susceptible to the change of the world economy, especially from the United States. The following table shows the huge trade deficit that the United States has with the Asian NIEs.

Table 4.3 The United States Trade Balance (May 1994) (in US\$ million)

Countries	Bilateral Balance	Export	Imports
Hong Kong	233	935	703
South Korea	-299	1,347	1,645
Singapore	-118	1,150	1,268
Taiwan	-932	1,268	2,200
Total	-1,117	4,699	5,815

Source: United States Information Service, *News Release*, 21 July 1994, 3.

Obviously, the trade deficit shown on the above table indicates that Taiwan relies greatly on the U.S. support. Although it is understandable that bilateral trade may reflect the political implication of their mutual relationship, many believe that Clinton's Asian economic policy is more realistic and significant. With Japan's transformation from military autocracy to economic democracy after 1945, the translation of economic power to authentic democratic election in Taiwan enables the spread of capitalism and market forces. If U.S. national interest is also defined as the preservation of capitalism, the underwriting of Taiwan's spur for international recognition is inevitable. We now turn to the example of the last dragon, a new graduate from the process of economic development.

d.) Singapore:

The development of Singapore witnessed another unique experience of modification from a small and open economy into a universal recognized cosmopolitan city-state. U.S. foreign policy objectives in transforming

Southeast Asia were initiated in 1959.⁵⁴ The facilitation of U.S. policy toward Asia in general and Southeast Asia in particular was confirmed in the study by the Committee on Foreign Relations. As suggested, the U.S. foreign policy should aim at cooperation with some Asian countries because “... the growth of greater regional cooperation between the non-communist states of Asia could do much to strengthen these countries and to forward U.S. policy objectives.”⁵⁵

Among the other countries, Singapore’s decolonization process strongly suggested its position in opposition to a communist threat⁵⁶ and the facilitation of the market force in its developmental process.⁵⁷ From 1945 to 1965, Singapore gradually and successfully consolidated the ruling party’s People’s Action Party (PAP) control. The end of the Second World War brought political chaos to Singapore. On the one hand, the British were hoping to sustain their influence and control. On the other hand, a “vacuum” in political control created increasing challenges from various aspects. In the late 1940s, the Singapore Progressive Party (SPP) and the Singapore Labor Party (SLP) were the major political forces.⁵⁸ According to Yeo Kim Wah and Albert Lau, the tutelage of British rule and collaboration with those parties collectively acted against the communist challenge because “Through Emergency laws and the close patrolling of the Johore Straits, the government prevented communists from using Singapore as a base to provide supplies of food and arms to their comrades fighting the British in

Johore.”⁵⁹ The amelioration of the communist penetration into Singapore’s soil signaled the country to formulate a strong and consolidated political force.

In 1954, the PAP was formulated by Lee Kuan Yew and other elites such as Lim Chin Siong and Fong Swee Suan. Eventually, PAP took power in 1959. As the ruling party drew its support from labor unions and Chinese schools and workers.⁶⁰ Until the independence of Singapore in 1965, the struggle with both communism and ethnic problems were Singapore’s major concern. Joining the Malaysia Federation with Sabah and Sarawak in 1963 was a testing ground for Singapore’s endurance on racial discrimination. It proved to be failure because Lee demanded “Malaysian Malaysia”,⁶¹ a fundamental contradiction with the ethnical and ideological principal of the Malay. The irreconcilableness with this political idea eventually led Singapore to become an independent country on the 9th of August 1965.

Singapore’s independence (1965) came during the height of the U.S. foreign policy of containment toward communist China and the former Soviet Union. Since 1954, the Southeast Asian Treaty Organization (SEATO) not only serves as an “umbrella”⁶² for the protection of Southeast Asia from communist infiltration but also served as venue for U.S. military involvement in that region. The material and military support of the U.S. were colossal. More than 4.2 million soldiers and 120 billion US dollars were

rendered through SEATO in the war zone of Vietnam.⁶³ SEATO ceased to be a tool of the U.S. military containment after the end of 1973.⁶⁴

Although Singapore was not a member of SEATO, its participation in the Association of South-East Asian Nations (ASEAN) on August 8, 1967, nevertheless, enlightened its economic role within cooperation among ASEAN members. After being expelled from the Malaysian Federation in 1965, Singapore actually facilitated its independent industrial and economic policy. Export-led growth strategy was later initiated in Singapore. It was called the “Second Industrial Revolution” (SIR) in 1979.⁶⁵ Among the other countries, the U.S. was the largest investor in the 1970s. In 1970, U.S. investment in the manufacturing sector, in terms of gross fixed assets, was 343 million, 34 percent of total investment in Singapore. In 1976, the number tripled to 1,233 million, 32 percent of total investment in Singapore.⁶⁶ In addition, the mode of cooperation in ASEAN through economic integration gave rise to Singapore’s reliance on the international market for its production and exports. In the 1980s the U.S. and EC comprised 40 percent of Singapore’s exports.⁶⁷ Even in the early 1990s, U.S. investment still outperformed Japan and European investment. In 1992, for example, the U.S. invested 1,200.1 million US dollars, Japan 843.4 million and Europe 613.9 million, respectively.⁶⁸

After the Cold War, Singapore changed its development strategy and implemented more government incentives. For example, the Singapore

Trade Development Board (STDB) shaped and reformulated the overall promotion of Singapore's international trade.⁶⁹ According to an Economic Survey of Singapore, the economy of Singapore expanded by 10.1 percent in 1994. The main factor was the "recoveries in the key export markets and strong growth in the regional economies."⁷⁰ However, it has to be remembered that, the long-established developmental path of Singapore's growth has been toward the international political economy of which U.S. influence was still a significant variable.

Summary

By using the Four Little Dragons as an example, I have shown the U.S. Augmented Market Liberalism (AML). First, as argued in chapter 2, American foreign policy influence serves as an exogenous variable in the light of understanding the economic growth of the Four Little Dragons. Second, the political implications of the economic success of the Four Little Dragons suggested to communist China that market forces are a way out. Finally, the cases of the Four Little Dragons indicated that the international economy played a role in the process of local economic development. Nevertheless, the 1960s and the 1970s witnessed the Chinese economy deviated from the path of the world developmental process. The following

chapter will examine the predicament of China's isolation during the 1960s and 1970s.

NOTES

¹ *The Economist*, January 4, 1997, 21.

² Lucian W. Pye, "The New Asian Capitalism: A Political Portrait" in Peter L. Berger and Hsin-Huang Michael Hsiao, eds., *In Search of an East Asian Development Model* (New Jersey: Transaction Publishers, 1988): 82.

³ American Assembly, *Some American Views on U.S. Far Eastern Policy, 1956-57* (New York: American Institute of Pacific Relations Inc., 1958): 3.

⁴ H. C. Y. Ho, "Views on Hong Kong's Past Growth and Future Prospects" in *The Economic System of Hong Kong*, ed. H. C. Y. Ho and L. C. Lau (Hong Kong: Asian Research Service, 1992): 1-5.

⁵ David G. Lethbridge, ed., *The Business Environment in Hong Kong*, 2nd ed. (Hong Kong: Oxford University Press, 1984).

⁶ Hong Kong Government, *Hong Kong: America's Business Partner in Asia* (March 1994): 1.

⁷ Malaysia (then Malaya) was granted independence by the British empire in 1957. Singapore gained partial independence in 1957. After the struggle of the People's Action Party (PAP) established in 1959, Singapore acquired independence in 1965 after expulsion from the Malaysian Federation. Indonesia became independent in 1949. The formal independence of Vietnam was granted by the Geneva Agreement in 1954, an immediate result of the defeat of French troops in the same year.

⁸ United States Information Service, "A Report to Congress on Conditions in Hong Kong as of 03/31/93 As Required by Sec. 301 of the United States-Hong Kong Policy Act of 1992" *Foreign Policy Backgrounder* (April 6, 1993): 4.

⁹ Richard W. Mueller, "America's Long-Term Interest in Hong Kong" *U.S. Department of State Dispatch* 6, no. 21 (May 22, 1995): 438.

¹⁰ Senate Committee on the Judiciary, *Refugee Problem in Hong Kong and Macao: Hearings Before the Subcommittee to Investigate Problems Connected with Refugees and Escapees*, 87th Cong., 2nd sess., May 29; June 7, 8, 28; And July 10, 1962, U.S. Government Printing Office: Washington, 1962.

¹¹ *ibid.*, 166.

¹² *ibid.*, 4.

¹³ Hsin-Huang Michael Hsiao, "An East Asian Development Model: Empirical Explorations", in Peter L. Berger and Hsin-Huang Michael Hsiao eds., *In Search of An East Asian Development Model* (New Jersey: Transaction Publishers, 1988): 18.

¹⁴ Bill Warren, *Imperialism: Pioneer of Capitalism* (London, Verso, 1980), 187.

¹⁵ In terms of Hong Kong's economic development, we have to look in detail at the relationship between it and the United States, since Frank's theory of underdevelopment can only provide a mechanical description of two separate identities. See A.G. Frank, *Latin America: Underdevelopment or Revolution* (New York: Monthly Review Press, 1970).

¹⁶ Immanuel Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis" *Comparative Studies in Society and History* 16 (1974): 405.

¹⁷ Bill Warren, *Imperialism: Pioneer of Capitalism* (London: Verso, 1980): ch. 8.

¹⁸ *ibid.*, 207.

¹⁹ Richard W. Mueller, "America's Long-Term Interests in Hong Kong" in *The ANNALS of The American Academy of Political and Social Science*, ed., Max J. Skidmore 547 (September 1996): 144.

²⁰ Rich W. Mueller, "America's Long-term Interest in Hong Kong" *U.S. Department of State Dispatch* 6, no. 21 (May 22, 1995): 439.

²¹ Cris Patten, "The Secret of Asia's Success" *South China Morning Post*, 12 April 1996, 21.

²² Cris Patten, "Beyond the Myths" *The Economist*, 4th January 1997, 20.

²³ Robert G. Sutter, *East Asia and the Pacific: Challenges for U.S. Policy* (Boulder: Westview Press, 1992): 93. See also Michael Mandelbaum, ed., *The Strategic Quadrangle: Russia, China, Japan, and the United States in East Asia* (New York: Council on Foreign Relations Press, 1995) for the post-Cold War perspectives on the Northeast Asia relations.

²⁴ Carter J. Eckert, *Offspring of Empire: the Koch'ang Kims and the Colonial Origins of Korean Capitalism, 1876-1945* (Seattle and London: University of Washington Press, 1991): 257.

²⁵ Senate Committee on Foreign Relations, *United States Security Agreement and Commitments Abroad: Republic of Korea: Hearings before the Subcommittee on United States Security Agreement and Commitments Abroad*, 91st Cong., 2nd sess., 24, 25 and 26 February 1970, 1717.

²⁶ *ibid.*

²⁷ Hagen Koo and Eun Mee Kim, "The Developmental State and Capital Accumulation in South Korea" in *States and Development in the Asian Pacific Rim*, ed. Richard P. Appelbaum and Jeffrey Henderson (Newbury Park: Sage Publications, 1992): 123.

²⁸ Senate Committee, *United States Security Agreements*, 1550.

²⁹ *ibid.*

³⁰ *ibid.*, 1743.

³¹ *ibid.*, 1541.

³² *ibid.*, 1584.

³³ *ibid.*, 1585.

³⁴ Hagen Koo and Eun Mee Kim, *op. cit.*, 144.

³⁵ *ibid.*, 125.

³⁶ Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989): 137.

³⁷ *ibid.*, 56.

³⁸ Sharon Reier, "The Chaebol Gamble on East Europe" *International Herald Tribune*, September 16, 1996, 17.

³⁹ *ibid.*

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- ⁴⁰ Anne Swardson, "Korean Unrest Casts A Shadow at OECD", *International Herald Tribune*, January 20, 1997, 1.
- ⁴¹ Don Kirk, "Chaebol Prevail in Seoul's Labor-Reform Plan" *International Herald Tribune*, December 7-8, 1996, 16.
- ⁴² Robert L. Downen, *Of Grave Concern: U.S.-Taiwan Relations and the Threshold of the 1980s*, Significant Issues Series 3, no. 4 (Washington, D.C.: The Center for Strategical and International Studies, Georgetown University, 1981): 10.
- ⁴³ *Deng Xiaoping Wenxuan*, Vol. 3, (Beijing: Renmin Chubanshe, 1993): 30.
- ⁴⁴ Simon Long, *Taiwan to 1993: Politics Versus Prosperity*, Special Report No. 1159, The Economist Intelligence Unit limited, 1989, 14.
- ⁴⁵ John W. Garver, *Foreign Relations of the People's Republic of China* (New Jersey: Prentice Hall, 1993).
- ⁴⁶ Harry Harding, *A Fragile Relationship: the United States and China Since 1972* (Washington, D.C., The Brookings Institution, 1992): 113.
- ⁴⁷ U.S. Senate Committee on the Judiciary, *Taiwan Communique and Separation of Powers: Hearings before the Subcommittee on Separation of Powers*, 97th Cong., 2nd sess., 17 and 27 September 1982.
- ⁴⁸ *ibid.*, 24-25.
- ⁴⁹ *The Honolulu Advertiser*, 12 November 1995, B4.
- ⁵⁰ *South China Morning Post*, 4 November 1995, 15.
- ⁵¹ Judith Goldstein and Robert O. Keohane, "Ideas and Foreign Policy: An Analytical Framework" in Judith Goldstein and Robert O. Keohane, eds., *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca and London: Cornell University Press, 1993): 12.
- ⁵² Thomas B. Gold, *State and Society in the Taiwan Miracle* (New York: M. E. Sharpe, Inc., 1986).
- ⁵³ *ibid.*, 17.

⁵⁴ The ground work of the U.S. foreign policy toward Asia was laid on 16 and 17 September 1958 when J. W. Fulbright was designated to undertake a comprehensive study for the future of U.S. foreign policy under the auspices of the Committee on Foreign Relations. See U.S. Senate Committee on Foreign Relations, *United States Foreign Policy: Asia*, prepared by Conlon Associates Ltd., 86th Cong., 1st sess., 1959, Committee Print 5.

⁵⁵ *ibid.*, 22.

⁵⁶ Chui Kwei Chiang, "Political Attitudes and Organizations, c. 1900-1941" in *A History of Singapore*, eds., Ernest C. T. Chew and Edwin Lee (Singapore: Oxford University Press, 1991): 78-81.

⁵⁷ The Asia Pacific Centre, *The Markets of Asia/Pacific: Singapore* (Hampshire: Gower Publishing Company Limited, 1981).

⁵⁸ Yeo Kim Wah and Albert Lau, "From Colonialism to Independence, 1945-1965" *A History of Singapore*, eds., Ernest C. T. Chew and Edwin Lee (Singapore: Oxford University Press, 1991): 124.

⁵⁹ *ibid.*

⁶⁰ *ibid.*, 131.

⁶¹ *ibid.*, 147.

⁶² Joel Krieger, *The Oxford Companion to Politics of the World* (New York: Oxford University Press, 1993): 947.

⁶³ Clark D. Neher, *Southeast Asia in the New International Era* (Boulder: Westview Press, 1991): 14.

⁶⁴ *The Oxford Companion to Politics of the World*, *op. cit.*, 847.

⁶⁵ Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca and London: Cornell University Press, 1990): 146.

⁶⁶ Cheng Siok Hwa, "Economic Change and Industrialization" in *A History of Singapore*, eds., Ernest C. T. Chew and Edwin Lee (Singapore: Oxford University Press, 1991): 209.

⁶⁷ Cheah Hock Beng, "Responding to Global Challenges: The Changing Nature of Singapore's Incorporation into the International Economy" in *Singapore Changes Guard: Social, Political and Economic Directions in the 1990's*, ed., Garry Rodan (New York: St. Martin's Press, 1993): 108.

⁶⁸ *Economic Development Board Yearbook 1992/1993* (Singapore: EDB, 1993): 66.

⁶⁹ *Singapore 1988* (Singapore: Information Division: Ministry of Communication and Information, 1988): 72.

⁷⁰ *Economic Survey of Singapore 1994* (Singapore: Ministry of Trade and Industry, 1995): 7.

**PART THREE: U.S. MARKET AUGMENTATION
POLICY TOWARD CHINA**

CHAPTER 5

COLD WAR SYNDROME AND CHINA'S ISOLATION

The internal changes taking place currently in most countries of southeast Asia, as well as the increasing awareness of their elites of the real nature of communism, are intensifying their hope that they will be aided by the United States in solving their problems.¹

U.S. Committee on Foreign Relations

Introduction

The Communist take-over China in 1949 gave rise to a conceptual as well as operational change in U.S. policy toward China. Moreover, the so-called Cold War relations were also intensified by Mao Zedong's ideological as well as tactical isolation policy. The major focuses of this chapter will cover the height of the Cold War and the isolation policy during the Mao era. Briefly, this chapter is divided into three parts. The first part will discuss

the general atmosphere during the Cold War when Sino-American relations were clouded with fear. Second, in terms of foreign relations, U.S. foreign policy toward China will be analyzed in terms of a strategic triangle which will explain the tenuous relations among the U.S., China and the Soviet Union. Finally, the notion of Mao's conceptual and practical policies will be understood by an analysis of his own work and reports from that area.

The Cold War Syndrome - Fear

Relations between the United States and China were seldom free and hosility. More often than not they were locked in the trap of a "security dilemma",² which was a predicament generated by the continuous mistrust and fear between them.³ Their relations in the 1950s and 1960s were characterized by the contrast in their perceptions of each other. When China sided with the Soviet Union during 1950s, its relations with the United States reached a nadir. According to Robert Jervis, "one state's gain in security often inadvertently threatens others".⁴ Thus, the Communist takeover of mainland China and subsequent one-sided policy doubled the intensity of fear in the United States government.

Actually, the cloud of fear and uncertainty was earlier highlighted by George F. Kennan in an astonishing article entitled "The Sources of Soviet Conduct" which appeared in *Foreign Affairs* in 1947.⁵ In addition, as

Thucydides observed that, "... when the element of fear is present, we fall short of our ideal."⁶ The same logic applied to U.S. relations with China, especially before the normalization of Nixon's visit in 1972.

The thrust of Cold War strategy, which denoted an important phase in the international political economy,⁷ was backed by a sufficient amount of economic endowments in the United States. If U.S. foreign policy objectives were defined in terms of the containment of communism during the Cold War, especially between 1949 and 1971, the instrument of its policy was clearly military or the arms race, between the East and the West. It was not an accident that the United States was a leader in the inauguration of the Cold War "congregation". The U.S. was the only power which could initiate the move towards Cold War. The diminishing power of the United Kingdom after 1945, the acceleration of socialist movements in the east, particular the emergence of Communist China in 1949, and the expansion of the Soviet Union after 1945, were lumped together to escalate the Cold War.⁸ The adoption of a more radical and hostile foreign policy towards socialist "liberation" strongly characterized George Kennan's article mentioned earlier.

To facilitate the containment, according to Robert McNamara, former Defence Secretary in the Kennedy administration, there should be a comprehensive process through differences means. The *mechanism* is detailed as follows:

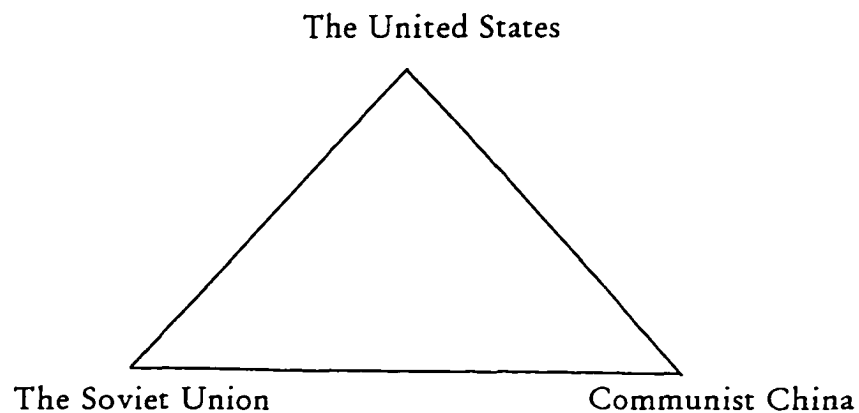
By the close of 1955 this system of interlocking alliances had grown to include the Rio Treaty in the Western Hemisphere, NATO in Europe, SEATO and ANZUS in the Far East, and the bilateral mutual defence agreements with Korea, Japan, the Republic of China and the Philippines. Altogether, more than fifty sovereign nations bound themselves together in an effort to defend their freedom and prevent the further extension of Communist influence and hegemony through subversion and aggression.⁹

Subsequently, the escalation of fear was further reinforced by the expansion of the Soviet Union in Eastern Europe and the Communists' victory over the Nationalists. This escalation will take us to the next section to investigate the strategic relations among the U.S., the Soviet Union and China in the atmosphere of the Cold War.

The Strategic Triangle

As a conceptual tool, the strategic triangle has been used widely to analyze the foreign relations among the U.S., China and the Soviet Union during the Cold War. Scholars such as John G. Stoessinger, Lowell Dittmer, Roman Kolkowicz and Min Chen applied the concept in either different perspectives or under a specific periods of time.¹⁰ In a nutshell, the strategic triangle relationship can be described as “playing oneself off against another”. As can be seen from diagram 5.1, the triangular relationship is most commonly used to analyze their meandering foreign policies.

Diagram 5.1 The Triangular System



The direction of relations, however, was indicated by the change of perceptions toward one another in different time periods. The following analysis will discuss U.S. perception toward the Soviet Union and China during a delicate time in the late 1940s and the early 1950s, respectively. Then, I will analyze China's relations with the Soviet Union in the 1950s and 1960s. In retrospect, both the U.S. and China's so-called strategic relations toward the Soviet Union were proven to be relatively short, which then left ample latitude for the opportunity of normalization between the U.S. and China, realized in the Nixon visit.

a.) The United States' Perception Toward the Soviet Union

The short phase of cooperation right after the Second World War between the United States and the Soviet Union was disappointing because

the strategic cooperation during this period was soon replaced by U.S. hostility toward the Soviet Union's expansion in Germany between 1948-1949. In his memoirs, Harry S. Truman details how the Berlin Blockade was gradually built by the relentless expansion of the Soviet Union. He complained that "The Russians on their part; seemed determined to treat their zone of Germany virtually as if it was Soviet conquered territory."¹¹ In fact, as soon as the Soviet representatives "walked out the Allied Control Council", the Soviet Union had already prepared for the seizure of Berlin. To further facilitate the division of Berlin, the Soviet Union began to check "all U.S. personnel passing through their zone for identification and would inspect all freight shipments..."¹² Moreover, the Soviets opposed the currency reform initiated by the U.S. On November 30, 1948, the Soviet Union occupied the Berlin city council, which signified the completion of the division of Berlin.¹³

U.S. perception toward the Soviet Union completely changed. In addition to the prophetic article written by George F. Kennan in 1947, the U.S. expression of fear from the Soviet Union was addressed further by Dean Acheson, the Secretary of State, on March 16, 1950 during a speech delivered at the University of California at Berkeley.¹⁴ The charge was depicted as follows:

But the Soviet leaders know and the world knows with what genuine disappointment and concern the people of this country were brought to the realization that the wartime collaboration between the major allies was not to be the beginning of [a]

happier and freer era in the association between the peoples of the Soviet Union and other peoples.¹⁵

b.) The U.S. Perception Toward China

The U.S. perception toward China was a combination of the fear of the spread of communism and the perceptual change of the American decision-makers toward the world economy. Immediately after the Second World War, Roosevelt was interested in beginning strategical relations with the China's National government because "The resulting Cold War pitted competing blocs of antagonistic states against each other, slowly inducing the United States to see that China's strategic location and market potential could actually make it a useful partner."¹⁶ Nevertheless, as mentioned earlier in the introduction of this book, U.S. perception toward China's National government completely changed when it saw the irreversible truth about the failure of the China's National government. *The China White Paper* prepared by Dean Acheson, then Secretary of State, demonstrated that "The unfortunate but inescapable fact is that the ominous result of the civil war in China was beyond the control of the government of the United States."¹⁷ Actually, the decision was made also from the perception toward the obvious expansion of the Soviet Union, a clear and present danger to all Europe.

The escalation of U.S. fear toward communism was further reinforced by McCarthyism. More significant, before the U.S. could strive for a

corresponding foreign policy in reaction to the then newly established People's Republic of China, the Congress was overwhelmed by Senator Joseph R. Macarthy's accusation during the hearing held between March 8 and June 28, 1950 that ten people had connection to the Communists in one way or another. Their activities, as charged, greatly affected U.S. foreign policymakers.¹⁸ This incident was a political outcry in the U.S.. Not only did it cause a great debate in Congress, but also indicated that the atmosphere of the U.S. government toward Communism was sceptical, alert, suspicious and unprepared.

According to the study done by Seyom Brown, the Berlin blockade between 1948-1949 only explained half of the reason why the implementation of the containment policy was swiftly accepted during the Truman administration. The rest came from the Communist victory over China.¹⁹ The substantial ingredients of military operation in the containment policy was written in NSC-68²⁰, which was further initiated by the immediate course of the break-out of the Korean War in 1950. The participation of China in the Korean War resulted in a U.S. trade embargo on nearly every kind of good that was exported to China. When the war esacalated in 1952, the embargo was also practiced by the allies of the United States, including Japan.²¹ As suggested by the early analysis of the triangular relations, the loss of the trade from the United States was quickly offset by the stategic relations between China and the Soviet Union. For example, the

total trade volume between China and the Soviet Union between 1950-59 was 413.16 billion, comprising 47.8 percent of China's total trade.²² The notion of strategy here represented by China's timely relations with the Soviet Union. The following section will survey how and to what extent their relations were maintained.

c.) China's Perception Toward the Soviet Union

China's overall perception toward the Soviet Union was heavily shaped by the ideological inclination of Chairman Mao. The aftermath of the establishment of the People's Republic of China in 1949 marked a turning point in the political and economic development of the PRC in the following two decades. In striving for socialist development, Mao decided to ally with the Soviet Union in an attempt to counterbalance Japanese intimidation and the influence of the United States.²³ Their cooperation resulted in the signing of the Treaty of Friendship, Alliance and Mutual Assistance Between the Soviet Union and the People's Republic of China on February 14, 1950. This treaty embodied a comprehensive bilateral cooperation in diplomatic, economic, military and political collaboration. For example, the granting of US\$300,000,000 to China helped enormously in the facilitation of heavy industrial development.²⁴ All of sudden, their relations in the early period burst into an embracing cooperation in different sectors of the economy and across various programs. To name but a few,

more than 10,800 Soviet technical experts were dispatched to China in the 1950s, over 250 to 300 large industrial projects were built in China with the assistance of the Soviet Union and over 1,500 Chinese technicians were trained in the Soviet Union.²⁵ Premier Li Peng was among those trained in the Soviet Union. In the late 1950s, the Soviets' supply of plants and factory equipment, in monetary terms, accounted for \$2,000 million.²⁶

Nevertheless, the unprecedented diplomatic triumph of the PRC with the Soviet Union undermined many hidden discrepancies between these two giant socialist states. In culmination, those differences and problems, on the one hand, reinforced the stability of their future foreign relations. On the other hand, the synthesis of their foreign relations fostered the imperative of later re-adaptation with the world economy after Nixon's visit.

The underlying differences between China and the Soviet Union surfaced in the early 1950s over the issues of Kao Kang, a Chinese Communist leader. Although no concrete evidence corroborated the secret relations between Kao Kang and the Soviet Union, it had been revealed that Stalin had made direct communication with Kao Kang behind the then paramount leader, Mao Zedong.²⁷ Later, more specifically, during a speech delivered at the Second Plenary Session of the Eighth Central Committee of the Communist Party of China on November 15, 1956, Mao openly identified Kao Kang as "having illicit relations with foreign countries", obviously the Soviet Union.²⁸

Second, the crack between China and the Soviet Union emerged directly out of Nikita Sergeyevich Khrushchev's de-Stalinization speech on February 25, 1956 during a closed session of the twentieth Communist Party of the Soviet Union (CPSU) Congress.²⁹ Mao denounced Khrushchev's criticism over the reliance on heavy industry in national development. Mao then went on and commented that the astray Khrushchev had deviated so much that he was deemed non-returnable because he not only abandoned Leninism and class struggle but also believed in the parliamentary road of state development.³⁰ Mao would never agree to this policy which did not accord to his socialist ideology.

The approach of the 1960s saw the climax of the manifestation of Sino-Soviet confrontation. After the Missile Crisis of 1962 (a military confrontation between Soviet Union and the United States over the missiles deployed in Cuba),³¹ China had begun its attack over the Soviet Union as an act of "adventurism".³² Their antagonism increased when the Soviet Union signed the Limited Test Ban Treaty with the United States and Britain in July 1963. Following suit was the exchange of letters between the Chinese Communist Party (CCP) and CPSU during late 1963 and 1964. Those letters, known as the "nine-comments", sent by the CCP to CPSU vehemently uncovered the differences, grievances and complaints over the Soviet Union.³³ For example, the letter sent to the CPSU on February 20, 1964 indicated that China was upset about the CPSU's secret letter to the

other fraternal parties as a way to condemn China.³⁴ The subsequent letters also pointed to the conflicts between China and the Soviet Union over the various issues including territory, aid and trading activities.³⁵ The sensitivity of Mao and his perception toward the Soviet Union in undertaking such activities, imperatively urged him to foster an entire break-up of bilateral relations with the Soviet Union. The most encompassing danger on the brink of military conflict between China and Soviet Union took place over the disputed island of Chenpao near the River Ussuri in March 1969. In the Statement on the Boundary Dispute, China declared that “Chenpao Island is China’s territory and the Chenpao Island incident was deliberately provoked by the Soviet government”³⁶ The escalation of war eventually ameliorated when Chou En-lai, Premier of the State Council had a “frank” talk with Kosygin, Chairman of the Council of Ministers of the Soviet Union.³⁷ Nevertheless, the foreign relations between them never returned to the level of the 1950s.

The isolation of Chinese development in such circumstances, after the break-up with his sole alliance, the Soviet Union, proceeded to an extent of abandonment and further dissection with the international economy. The Great Leap Forward and the Cultural Revolution dramatized and crystallized the futility of China’s segregation from the world economy and the dissipation of energy in a self-destructive struggle. Facilitated by

Mao's original works and the ample newspapers resources, the following sections will shed light on the domestic part of Chinese isolation.

Mao's Policies of Isolation

The revolutionary ideas of Mao zedong and the effective isolation policy of China from the world market economy in the 1950s and 1960s collectively disengaged China from a global economic take-off. Mao's ideological orthodoxy in the belief of continuous revolution and conflict enmeshed China's economy into an abyss of economic underdevelopment. For example development policies the Great Leap Forward and especially upheavals such as the Cultural Revolution disrupted economic development. In terms of foreign policy, Mao's communist ideology and concept of international revolution naturally pushed him to "lean to one side"³⁸ to the former Soviet Union for psychological as well as physical support either to collaborate or confederate under socialism.³⁹ On the contrary, China's its relations with the U.S. was reciprocated by the U.S. containment policy for fear that its socialist movement might spread relentlessly to the world. The embargo that the U.S. put on Communist China was regarded by Rosemary Foot as "the primary economic purpose of delaying the country's modernization and thus the development of its military capacity."⁴⁰ This centrifugal effect certainly delayed China's development process.

Nevertheless, the personal traits of Mao also played a substantial role in keeping China from the international society.

In other words, the idiosyncrasies of Mao in the hope of translating socialism as an operational strategy that propel the country forward actually hindered economic development, especially engagement with the world political economy. Strategical and practical imperatives thus pushed China toward the former Soviet Union not only for economic reasons but also for communist affinity. Coupled with the disasters of the Great Leap Forward movement and the Cultural Revolution, China's political economy under Mao's control was highly segregated from the world economic developmental process. The following sections will detail these processes.

Mao emphasizes conflict and revolution. His idea of war and the tactics of guerrilla warfare culminated in his conflict theory. Nevertheless, Stuart R. Schram argues that "Mao's blind spots reflect not only his own personality and experience, but certain weaknesses of Marxism as a system. By temperament, Mao is impatient with the routine and technical character of modern economic activity."⁴¹ The emphasis on socialist transformation and revolution degenerated the whole society into internal chaos while it functionally distanced itself from the world market economy. The anachronism between Mao's military intelligence and revolutionary ideas in government administration resulted in the underdevelopment and antagonistic nature of China in the 1950s and 1960s. Albeit, the end of civil

war in 1949 did not terminate his encompassing revolutionary ideas. The basic principle of war, Mao asserted, is “to strive to the utmost to preserve one’s own strength and destroy that of the enemy.”⁴² A pioneer in the field of guerrilla warfare, Mao’s intelligence in the empirical warfare experience was captured in his idea of transforming guerrilla warfare into a mobile war during the Japanese invasion in the late 1930s. He points:

Since the war is protracted and ruthless, it is possible for the guerrilla units to undergo the necessary steeling and gradually to transform themselves into regular forces, so that their mode of operations is gradually regularized and guerrilla warfare develops into mobile warfare.⁴³

Mao’s strategies in warfare earned him the country by expelling China’s Nationalist - the Kuomintang (KMT) to Taiwan. Nevertheless, encapsulated in his revolutionary mode of economic development, Mao’s passion for revolution perpetuated in the administrative and governmental development of the People’s Republic of China (PRC) in the following decades. His belief in contradiction necessarily dichotomized the growth of internal China in the way of socialist transformation and the bourgeois capitalist economic development of the rest of the world.⁴⁴ To put it more bluntly, the whole logic of Mao was to “exterminate the bourgeoisie and capitalism in China.”⁴⁵ Here, it can be understood why China’s economy in the 1950s and 1960s was isolated from the world market economy not only in terms of physical trade and cooperation but also in the more fundamental

differentiation of the mentality toward the way to develop. Actually, the idea of extermination of capitalism was not only exercised domestically. Mao's propaganda was also meant to spread to the rest of the world. He exclaimed that "Our aim is to exterminate capitalism, obliterate it from the face of the earth and make it a thing of the past."⁴⁶ The confrontation between China and the world economy, thereafter, accelerated when such a defensive approach to an economic growth strategy used in China became an offensive tactic aimed at the world society. In such circumstances, China basically disengaged itself from the world market economy which was dominated by the hegemonic power of the United States at that time.

To further delineate China from the world market, Mao's idea of China's industrialization process relied on the internal agricultural force and the development of heavy industries.⁴⁷ It paved the way for strengthening cooperation with the former Soviet Union, socialist ties that intended to connect with all socialist states.⁴⁸

a.) The Great Leap Forward (1958-1960)

Mao's belief in conflict and revolution not only gave rise to intimate cooperation with the USSR but also later conflict and confrontation. The results of using ideological incentives in running the government

administration and industrial management led to serious famine and human catastrophe during and after the Great Leap Forward (1958-60). According to Roderick MacFarquhar, one of the major contributing factors of launching the Great Leap Forward was the differences between Mao and Khrushchev in the conceptual and tactical ways of the assessing and realizing socialist revolution during the 40th anniversary of the Bolshevik Revolution held in Moscow in late 1957.⁴⁹ Moreover, after Mao made an inspection tour in Hangchow and Nanning, the ideas and theoretical assumptions of the Great Leap Forward gradually precipitated and later were put forward in the Sixth Articles about work methods.⁵⁰

The launch of the Great Leap Forward manifested after the Report to the Second Session of the Eight Party Congress on May 5, 1958 by Liu Shaoqi as a reaction toward the Soviet Union's de-Stalinization and capitalist exploitation.⁵¹ Hence, the intensity of the Great Leap Forward increased relentlessly after the Central Committee's Decision on the People's Communes on August 29, 1958 and the Politburo's simultaneous call for doubling the output of iron and steel. As argued by James Wang, the Great Leap Forward centered on the combination of labour-intensive production methods and the wide-spread use of communes to enhance the production of industrial as well as agricultural products.⁵² The belief in self-perpetuation, enthusiasm and unscientific modes of production inherently embodied the elements of failure. The lack of competition, material incentive and

comparison with the world economy only resulted in unnecessary wastage, human catastrophes and exaggerated reports and statistical results, especially in the agricultural sector and steel in production. The following cases depict a glimpse of newspapers' reports that covered those invented and polluted cases found in some localities, a phenomenon that happened regularly in those days.

b.) Falsifying Reports and Cases in Hebei and Yunan

At the height of Great Leap Forward, most newspaper articles and reports covered two major items of development: agriculture and industry, particularly steel. The editorials of *Yunan Ribao*, for instance, from May to June 1959, continuously reported spectacular results in paddy and rice growing and fabulous improvement in steel manufacturing.⁵³ For example, in terms of steel production, an article revealed that furnace no. 1 of the Kunming steel plant produced qualify iron in 23 out of 29 days.⁵⁴ In addition, as reported, the rate of paddy and rice production was one acre per day among all of Yunan province.⁵⁵ In order to glorify the domestic achievement of the Great Leap Forward and demonize the capitalist states, overseas news would sometimes be manipulated by the editor as a demonstration of propaganda. Stories about millions of poor people living in shanty towns and squatter areas in New York City were not uncommon⁵⁶.

While the provincial newspaper reported spurious, exaggerated and illogical results of agriculture and industrial development, the national newspaper, *Renmin Ribao*, drew the attention of audiences to world affairs in which conflicts could be found among the developed and developing countries. For instance, on March 6, 1962, the editor of *Renmin Ribao* blamed the high growth rate of Japan to exploitation by the state and entrepreneurs. The high savings rate, a characteristic of Japanese culture, was also criticized as a tool of exploitation.⁵⁷ Ironically, the function of the state, the tripartite relations among the government, business and politicians and the relations between savings rates and investment, on the contrary, were major factors that contributed to Japanese economic growth.⁵⁸

Some spurious reports were also found in Hebei. In 1958, a newspaper illustrated that people used only two days to complete the reforestation of 16,000 acres of land.⁵⁹ The quantum speed of afforestation, as a reaction to the central authority, only led to unbelievable figures. For example, on March 10, 1958, the central government set a target of 20,000,000 acres for the afforestation program. In only 17 days, each municipal witnessed enormous results in finishing the job. The following table, taken from *Hebei Ribao*, details the amazing pace of afforestation that took place.

Table 5.1 Afforestation in Hebei Province (March 1958)

Areas	Finished Ares (acres)	% as Planned	Trees Planted (number)	% as Planned
Total	6,193,988	31	437,943,902	69.4
Chengde	206,170	5.1	36,709,018	36.7
Tangshan	131,535	6.8	5,446,437	12.3
Dongcheng	211,375	15.6	26,360,000	43.2
Zhangjiakou	1,187,093	29.6	18,069,963	44.1
Baoding	340,359	12.6	47,000,000	76.0
Shijiazhuang	1,279,422	47.4	51,815,779	45.8
Xingtai	1,681,982	98.9	72,585,923	180.9
Handan	1,080,000	108.0	89,000,000	209.4
Tianjin	24,576	9.1	8,729,199	22.0
Cangzhou	51,046	32.0	79,467,241	96.5
Qinhuangdao	—	—	—	—
Zhangjiakou City	—	—	—	—
Tangshan City	—	—	562,775	98.8
Shijiazhuang City	430	2.9	527,567	17.4
Handan City	—	—	—	—
Baoding City	—	—	1,670,000	75.9

Source: *Hebei Ribao*, 29 March 1958, 1.

To accomplish the job in such little time revealed nothing but the fact that people were unaware about the logic of the information. Nor did they have the scientific knowledge to judge the authenticity of the data. What they relied on was the ideological indoctrination of Chairman Mao. Invented data as the above-mentioned might result in people's loss of confidence in the government. These primitive methods of estimating production and growth were actually destructive and disastrous to the economy. For instance, untrained and uneducated peasants were used as advisers for irrigation projects.⁶⁰ Government officials also believed in not using concrete and steel when building dams and dykes.⁶¹ A village proverb found in a newspaper indicated the way in which passionate enthusiasm was embodied in people's understanding of agricultural development.

Figure 5.1 A Village Proverb

*Sweet potato taken from village is liked a horse,
a gallop jumps to 1962
Each household grows 1.8 acres sweet potatoes,
enough for eating, wearing and spending.
Each acre uses 20 carts fertilizer,
with returns of 10 thousand jin.*

Source: *Hebei Ribao*, March 6, 1958, 2.

The nature of the Great Leap Forward was aimed at the acceleration of national production by using human resources in a passionate and sentimental way, instead of relying on rational and calculated management and administrative procedures. Without management skills and implementation knowledge, the communes, the relatively decentralized collective units, were only a loosely “divided policy-making system” having serious problems in coordinating a collective effort.⁶² Moreover, the lack of technological know-how and even the common sense of agricultural and industrial development did more harm than good. The implicit and explicit problems of the Great Leap Forward, together with floods and famine in 1959 and 1960, led to the entire collapse and destruction of China’s national economy. Remarking on the whole movement of the Great Leap Forward, Jean-Luc Domenach contended that “Not only did the Great Leap Forward produce a terrible catastrophe, but its political formulation and even more

the nature of the Chinese Communist regime made the catastrophe inevitable.”⁶³ In fact, the catastrophe did not stop right after the Great Leap Forward. Another period of political and economic chaos, the Cultural Revolution, began soon after in the 1960s.

c.) Cultural Revolution

By a wide margin, the Cultural Revolution witnessed the disillusionment of the socialist dream in the realistic intransigence of Communist China’s politics. More important, it facilitated a huge drawback in the economic sector as well as in the political sphere. The predicament of Chinese socialist development reached its lowest peak during the Cultural Revolution (1966-1976). As a formal government policy, the Cultural Revolution was launched on August 8, 1966 after the eleventh session of the Eighth Central Committee.⁶⁴

The Cultural Revolution, as a complex political and social incident, has very “often been represented in the West as a struggle between pragmatism and radical ideology.”⁶⁵ Nevertheless, studies of the Cultural Revolution have been differentiated into various disciplines. To analyze the historical trajectory of *The Origins of Cultural Revolution*, Roderick MacFarquhar focuses on the macro-history of Chinese Communist development, which eventually engendered the Cultural Revolution.⁶⁶

Others, such as Gao Yuan, who served as a Red Guard during the height of the Revolution, gives an account of the personal experience of his day-to-day experiences and development of the Revolution.⁶⁷ In addition, the recent study of the Cultural Revolution by Wang Shaoguang gives a political diagnosis, using the theoretical analysis of a rational choice model to study the masses.⁶⁸ No matter how we interpret the Cultural Revolution, as concluded by William A. Joseph, this chaotic decade has become and will continue to be a political, social and economic trauma because “there are deep psychological scars that individual Chinese will bear for life and social wounds that will not heal for generations.”⁶⁹

Some reasons contributed to the relentless speed and unprecedented extent of the Cultural Revolution. First, in terms of foreign relations, the withdrawal of Soviet economic advisers and assistance in the early 1960s imperatively pushed China into an embarrassed and awkward situation.⁷⁰ With limited alternatives, the yield to extreme socialist thinking and political chaos occurred.

Second, the origin of the Cultural Revolution might be traced to Mao’s dismay over a series of plays, novels and articles that appeared in the early 1960s. The play, *Hai Rui’s Dismissal from Office*, for example, was considered as criticizing Mao’s mismanagement during the Great Leap Forward.⁷¹ Yet, finally, as having a rather practical purpose, the Cultural Revolution was also a power struggle tool between Mao and higher

echelons⁷² such as Liu Shaoqi and Lin Biao of the Communist party. The manifestations of clash and antagonisms between Mao and Liu Shaoqi were further exposed in the newspapers. Titles such as “Thorough Criticism of Liu Shaoqi as Traitor and Thief of Anti-revolutionary Revisionism” appeared frequently in the major newspapers such as the *People’s Daily*.⁷³ On May 16, 1969, the criticisms of Liu Shaoqi pointed to his belief in experts and professionalism in factory management and administration.⁷⁴ In the turbulent years of succumbing to ideological purity, the belief in experts was not considered to be politically correct. In a similar fashion, the heavy criticism of Lin Biao also occurred in local newspapers in 1973. The anachronistic juxtapositions of Lin’s criticism and the improvement of agriculture and porcelain that only revealed the underlying meaning of those articles was nothing but a contention of the struggle for power, obviously with Mao monopolizing the forum.⁷⁵

The above case reveals that, during the Cultural Revolution, the strength and people’s energy were wastefully absorbed and gradually degenerated into domestic contention. The means and modes of production were governed not by the logic of market forces and incentives but by frenzy ideological and political indoctrination. In fact, the problem of Chinese development under pure ideological incentives was clearly stated in a study carried out by Barry M. Richman in 1966 of the Chinese industrial and management sectors. He reached a pessimistic conclusion and, actually, a

prediction of the hopeless extreme doctrine of socialism in the managerial and industrial sectors if material incentives and managerial methods were undermined.⁷⁶ Moreover, his concluding remarks spelt out the gist of the study and also had hindsight towards the way in which China had become involved in the world economy. He mentioned that:

If Communist China does ever evolve into a truly first-rate power, it would appear that some of the more important aspects of pure Maoist-Marxist ideology would have to be abandoned, or at least greatly compromised in the process.⁷⁷

Apart from the problems found in industrial and managerial development, the economy of China during the Cultural Revolution was also a disaster. From 1965 to 1975, the average annual growth rate of grain output per capita was 1.1 percent,⁷⁸ while the growth rate of the population during this period was 2.4 percent.⁷⁹ One can imagine the hardship that people suffered and the fragility of the political economy of China at that time. The death of Mao on September 9, 1976 not only represented a termination of his political life, but was actually a historical juncture for China. Mao's death in a sense allowed China the freedom to begin to reshape its course of development from domestic political struggle to economic openness and adaptation to the world market economy.

Conclusion

This chapter began by exploring the trajectory of the strategic relations among the United States, China and the Soviet Union. As mentioned earlier, neither the relations between the United States and the Soviet Union nor the relations between China and the Soviet Union represented genuine cooperation. By looking at the plight of the domestic economy depicted above during the Mao era, a new course of development seemed imperative for China. Policies based on economic development are a rational outcome not only for decision makers but also for the entire nation. In addition, the 1970's saw the historical change of the world economy and a change in U.S. foreign policy. The next chapter will, therefore, analyze how the world political economy facilitated a change in U.S. foreign policy toward China.

NOTES

¹ U.S. Senate on Committee on Foreign Relations, *United States Foreign Policy: Asia*, 86th Cong., 1st sess., 1959, Committee Print, 82.

² There are two types of Security Dilemma, the “Inadvertent Security Dilemma” and “Deliberate Security Dilemma”. Although their aims are different, the result of both could be destructive. They break the cooperative possibility between states and produce further hostility between them. For a theoretical understanding of this concept, see Nicholas J. Wheeler and Ken Booth, “The Security Dilemma” in John Baylis & N.J. Rengger, eds., *Dilemma of World Politics: International Issues in a Changing World* (Oxford: Clarendon Press, 1992): 29-60.

³ *ibid.*, 38.

⁴ R. Jervis, “Cooperation Under the Security Dilemma”, *World Politics* 30, no. 2 (1978): 170.

⁵ Instead of putting his real name, he used “by X” as the name of the author. See By X, “The Sources of Soviet Conduct”, in *Foreign Affairs* 25, no. 4 (July 1947): 566-82. The argument in this article about the internationalisation of Socialism was adopted by the government as the major foreign policy orientation, which directly led to the precipitation of the Cold War. See also Stephen E. Ambrose, *Rise to Globalism: American Foreign Policy Since 1938*, 7th. edn., (London: Penguin Books, 1993): 95-96.

⁶ Thucydides, *History of The Peloponnesian War*, translated by Rex Warner (London: Penguin Books, 1972): 105.

⁷ Robert A. Isaak, *International Political Economy: Managing World Economic Change* (New Jersey: Prentice-Hall International, Inc., 1991): 44-54.

⁸ Robert J. Bresler, “The Origins and Development of the Cold War, 1945-58” in Ronald Barston, ed., *International Politics Since 1945* (London: Edward Elgar, 1991): 1-17.

⁹ Robert S. McNamara, *The Essence of Security: Reflections in Office* (New York: Harper & Row, Publishers, 1968): 5. SEATO stands for Southeast Asia Treaty Organization and ANZUS refers to Australia, New Zealand, and US Defence Pact. See Joel Krieger, ed., *The Oxford Companion to Politics of the World* (New York: Oxford University Press, 1993): 847-848 and Gerald

Segal, *The World Affairs Companion: The Essential One-Volume Guide to Global Issues*, revised ed., (London: Simon & Schuster, 1993): 199 for details.

¹⁰ John G. Stoessinger depicted each of their interrelations under the framework of international politics. See John G. Stoessinger, *Nations at Dawn: China, Russia, and America*, 6th ed., (New York: McGraw-Hall, Inc., 1994). Lowell Dittmer applied the strategic concept in a game model. Lowell Dittmer, "The Strategic Triangle: An Elementary Game-Theoretical Analysis" *World Politics* 33, no. 4 (July 1981): 485-515. Roman Kolkowics, nevertheless, focused on the relations between the United States and the Soviet Union. See Roman Kolkowicz, "Strategic Parity and Beyond: Soviet Perspectives" *World Politics* 23, no. 3 (April 1971): 431-451. Min Chen put forward the concept in the specific context of the Indochinese Wars. See Min Chen, *The Strategic Triangle and Regional Conflicts: Lessons from the Indochina Wars* (Boulder & London: Lynne Rienner Publishers, 1992).

¹¹ Harry S. Truman, *Memoirs by Harry S. Truman* (New York: A Signet Book, 1956): 146.

¹² *ibid.*, 147.

¹³ *ibid.*, 155.

¹⁴ Department of State, *American Foreign Policy 1950-1955, Basic Documents, Vol. II* (Washing, D.C.: Department of State, 1957): 1928.

¹⁵ *ibid.*, 1934.

¹⁶ Nancy Bernkopf Tucker, "China and America: 1941-1991" *Foreign Affairs* 70, no. 5 (Winter 1991/92): 78.

¹⁷ Department of State, *The China White Paper, August 1949* (Stanford: Stanford University Press, 1967): XVI.

¹⁸ Congressional Quarterly Service, *China and U.S. Far East Policy, 1945-1967* (Washington, D.C.: Congressional Quarterly Service, 1967): 14.

¹⁹ Seyom Brown, *The Faces of Power: United States Foreign Policy from Truman to Clinton*, 2nd ed., (New York: Columbis University Press, 1994): 36.

²⁰ NSC-68 refers to the name of files prepared by the National Security Council. See *ibid.*, 37-39.

²¹ Rosemary Foot, *The Practice of Power: US Relations with China Since 1949* (Oxford: Clarendon Press, 1995): 53.

²² *ibid.*, 56.

²³ Harold C. Hinton, ed., *Government & Politics in Revolutionary China: Selected Documents, 1949-1979* (Wilmington: Scholarly Resources Ins, 1982): 8.

²⁴ *ibid.*, 10.

²⁵ A. Doak Barnett, *China and the Major Powers in East Asia* (Washington, D.C.: The Brookings Institution, 1977): 28.

²⁶ G. F. Hudson, Richard Lowenthal and Roderick MacFarquhar, *The Sino-Soviet Dispute* (London: The China Quarterly, 1961): 37.

²⁷ A. Doak Barnett, *op. cit.*, 30.

²⁸ *Selected Works of Mao zedong*, Vol. V (Peking: Foreign Languages Press, 1977): 340.

²⁹ John W. Garver, *Foreign Relations of the People's Republic of China* (New Jersey: Prentice Hall, 1993): 125.

³⁰ *Selected Works of Mao zedong*, Vol. V (Peking: Foreign Languages Press, 1977): 341.

³¹ See Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (New York: Harper Collins Publisher, 1971) for the details of the incident that happened in October 1962.

³² *Peking Review*, September 6, 1963, 14.

³³ The first comment entitled: "The Origin and Development of the Differences between the Leadership of the C.P.S.U. and Ourselves" and the last one named "On Khrushchev's Phoney Communism and Its Historical Lessons for the World." See A. Doak Barnett, *China and the Major Powers in East Asia* (Washington, D.C.: The Brookings Institution, 1977): 348, note 81.

³⁴ William E. Griffith, *Sino-Soviet Relations 1964-1965* (Massachusetts: The MIT Press, 1967): 173-174.

³⁵ *ibid.*, 181-190.

³⁶ Harold C. Hinton, ed., *Government & Politics in Revolutionary China: Selected Documents, 1949-1979* (Wilmington: Scholarly Resources Ins, 1982): 303.

³⁷ *ibid.*, 308.

³⁸ A. Doak Barnett, *China and the Major Powers in East Asia* (Washington, D. C.: The Brookings Institution, 1977): 21.

³⁹ *Selected Works of Mao zedong*, Vol. V (Peking: Foreign Languages Press, 1977): 17.

⁴⁰ Rosemary Foot, *op. cit.*, 54.

⁴¹ Stuart R. Schram, *The Political Thought of Mao zedong* (New York: Frederick A. Praeger Publisher, 1963): 83.

⁴² *Selected Works of Mao zedong*, Vol. II (Peking: Foreign Languages Press, 1967): 1.

⁴³ *ibid.*, 107.

⁴⁴ *Selected Works of Mao zedong*, Vol. V (Peking: Foreign Languages Press, 1977): 212 and 305.

⁴⁵ *ibid.*, 214.

⁴⁶ *ibid.*

⁴⁷ *ibid.*, 419.

⁴⁸ *ibid.*, 421.

⁴⁹ Roderick MacFarquhar, *The Origins of the Cultural Revolution, Vol. 2: The Great Leap Forward 1958-60* (Columbia: RIIA and Columbia University Press, 1983): 7.

⁵⁰ *ibid.*, 20.

⁵¹ Harold C. Hinton, *op. cit.*, 73.

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- ⁵² James C. F. Wang, *Contemporary Chinese Politics: An Introduction*, 4th ed. (New Jersey: Prentice-Hall International, Inc., 1992): 15.
- ⁵³ *Yunan Ribao*, May 1, 1959 to June 30, 1959.
- ⁵⁴ *Yunan Ribao*, June 5, 1959, 1.
- ⁵⁵ *Yunan Ribao*, June 18, 1959, 1.
- ⁵⁶ *Yunan Ribao*, June 28, 1959, 4.
- ⁵⁷ *Renmin Ribao*, March 6, 1962, 3.
- ⁵⁸ See Kozo Yamamura and Yasukichi Yasuba, eds., *The Political Economy of Japan, Vol. 1. The Domestic Transformation* (Stanford: Stanford University Press, 1987).
- ⁵⁹ *Hebei Ribao*, March 3, 1958, 1.
- ⁶⁰ *Hebei Ribao*, March 21, 1958, 1.
- ⁶¹ *Hebei Ribao*, March 8, 1958, 3.
- ⁶² David M. Lampton, "Health Policy during the Great Leap Forward" *The China Quarterly*, no. 60 (October/ December 1974): 698.
- ⁶³ Jean-Luc Domenach, *The Origins of the Great Leap Forward: The Case of One Chinese Province*, trans. A. M. Berrett, (Boulder: Westview Press, 1995): 167.
- ⁶⁴ James C. F. Wang, op. cit., 19.
- ⁶⁵ Iain Mclean, ed., *The Concise Oxford Dictionary of Politics* (Oxford: Oxford University Press, 1996): 123.
- ⁶⁶ The three volumes of MacFarquhar's *The Origins of the Cultural Revolution* are considered to be a comprehensive study of this historical incident. See Roderick MacFarquhar, *The Origins of the Cultural Revolution: Contradictions Among the People 1956-1957* (Columbia: Columbia University Press, 1974) and Roderick MacFarquhar, *The Origins of the Cultural Revolution: The Great Leap Forward 1968-1960* (Columbia: Columbia University Press, 1983).

⁶⁷ Gao Yuan, *Born Red: A Chronicle of the Cultural Revolution* (Stanford: Stanford University Press, 1987).

⁶⁸ Wang Shaoguang, *Failure of Charisma: The Cultural Revolution in Wuhan* (Hong Kong: Oxford University Press, 1995).

⁶⁹ Gao Yuan, *op. cit.*, xxvii and xxvii.

⁷⁰ Allen S. Whiting, "The Sino-Soviet Split" in *The Cambridge History of China, Vol. 14, The People's Republic, Part I: The Emergence of Revolutionary China, 1949-1965*, ed. Roderick Macfarquhar and John K. Fairbank (London: Cambridge University Press, 1987): 520.

⁷¹ Jame, C.F. Wang, *op. cit.*, 20.

⁷² Gao Yuan, *op. cit.*, xvi.

⁷³ From May to June of 1969, for example, the attack of Liu appeared four times in full page critical, even cursed, articles. See *People's Daily*, May 1969 to June 1969.

⁷⁴ *People's Daily*, May 16, 1969, 4.

⁷⁵ *Sichuan Daily*, October 6 and 13, 1973, 2 and 4, respectively.

⁷⁶ Barry M. Richman, *Industrial Society in Communist China* (New York: Vintage Books, 1969): 914-915.

⁷⁷ *ibid.*, 916.

⁷⁸ Carl Riskin, *China's Political Economy: The Quest for Development Since 1949* (New York: Oxford University Press, 1987): 185.

⁷⁹ *ibid.*

CHAPTER 6

NIXON'S 1972 VISIT TO CHINA AS A RESULT OF MARKET FORCES

That begins with recognition that China has yet to shake the world; its external influence has been comparatively inconsequential since the industrial revolution. Instead, it is the world that has shaken China.¹

Bruce Cumings

Introduction

The previous chapter began by postulating the atmosphere of fear that had affected the perceptions between the U.S. and China. Sometimes, the encapsulation in the Cold War aura could also reduce the ways of looking at a single issue. Some analysts in light of Cold War have very strong explanations explaining the rapprochement of the U.S. toward China.

Nevertheless, some other scholars had already begun to search for a new perspective towards Sino-American relations.

In 1971, a book entitled *China Trade Prospects and U.S. Policy* was published. Scholars such as Jerome Alan Cohen, Robert F. Dernberger and John R. Garson proposed a new blueprint to look for some economic reasons or market opportunities between China and the U.S. at that time.² By using economic and legal comparisons, they arrived at a step-by-step trade liberalization policy to open the market of China. Steps included “the complete removal of the embargo on direct and indirect trade in nonstrategic goods..., U.S. flag carriers could transport ‘nonstrategic’ commodities to and from Chinese ports,... and remove all restrictions on travel by any U.S. citizen to China and would permit him to purchase commodities and services directly from Chinese within China.”³

In essence, their study wanted to draw the attention of the whole government to the fact that “what would happen if the U.S. Government and businessmen were to offer to assist China in its economic development effort through both trade and aid.”⁴ This study hinted that a remarkable crux in their normalization would be based on the market force. As long as they constructed the blueprint for the prospects of Sino-America relations, the rest of the job would depend on the formal diplomatic decision initiated by the U.S. President.

Moreover, 1971 was also the year of the collapse of Gold Standard system.⁵ President Nixon, on August 15, 1971, announced that the U.S. government could not support the gold-pegged U.S. dollars which were over-valued at that moment. The President of France, de Gaulle, even questioned the creditworthiness of the U.S. in the exchange of the same amount of gold with the US dollars. The price of gold rose to \$65 (the official price was set at \$35 an ounce) an ounce on the London market.⁶ The U.S. dollar was expected to depreciate. This incident was startling to international economy. As soon as the U.S. announced the break-down of the Gold Standard, the floating exchange rate system flourished.

Coincidentally, relations between the U.S. and China dramatically changed from hostility to acceptance. The U.S. table tennis team paid a historical visit to China in 1971. Even Premier Chou En-lai received visiting American table tennis players and told them their visit had “opened new page in relations of Chinese and American people”.⁷ Following suit, Henry Kissinger, then National Security Adviser, secretly went to China to lay the groundwork for Nixon’s formal visit in 1972. The six-day visit, from February 22, 1972 to February 28, 1972, was concluded by the signing of the Shanghai Communiqué, which paved the way for U.S.-China harmonization in foreign relations. It indicated the first period of normalization between these two great powers after the Second World War.

This chapter attempts to provide an alternative by interpreting Nixon's visit as the externalization of the international political economy, with the market functioning as the central agency. This chapter will begin with the introduction of some other prevailing Cold War arguments of the interpretation of the normalization. They represent the major arguments that dominated the Cold War debate. Second, the reinterpretation of Nixon's visit will be studied from the analysis of the Congressional hearing held in 1967 that laid the foundation for opting for the market liberalism policy, particularly in the case of wheat selling, toward the world economy in general and China in particular. Third, this section will explore the questions of why Nixon organized his visit to China. The final section surveys the preparations that were made before the launch.

Two Prevailing Cold War Interpretations

The following section will briefly examine two articles published in *Foreign Policy* in 1975 and 1976, respectively.⁸ They represent the major perspectives embedded in the spirit of the Cold War during that time period. The first point of view represented those who placed emphasis on the strategic reasons of the normalization toward Sino-American relations. The other will investigate the domestic power struggle of China for the justification of the visit.

In the first article, Michael Pillsbury, an analyst from the Rand Corporation, attempted to interpret Nixon's visit by linking Sino-American relations with "military ties".⁹ In essence, the strategic wants of China at that time were well represented by his discovery of China's request for U.S. military armaments. By searching for sources available from Russia or the U.S., logically, he postulated two tentative, but inspiring explanations of China's strategic wants. A foreign policy initiative to "... seek Western military equipment, defense technology, and intelligence?"¹⁰ and "to play upon the conspiratorial instincts of Soviet analysts" became his conclusive education from strategical analysis.¹¹ The United States, in return, paved the way for further enhancement of the diplomatic relations with China by selling weapons as well as arousing the attention of the Soviet Union in keeping an eye on the Sino-Soviet border.¹² In that circumstance, the whole visit was understood as the externalization of the balancing power of the United States.

In the second article, Roger Glenn Brown argued that the facilitation of Sino-American normalization was influenced predominantly by the internal power struggle. Generally, the clash between the conservatives and the progressives on the opening of China to the U.S. and the lesser tension over the Sino-Soviet border disputes gave rise to the importance of U.S. normalization with China.¹³ In addition, the fall of Lin Biao also accelerated

the pace toward Sino-American normalization, which meant victory to the prevailing power which supported the normalization.¹⁴

These arguments represent the realist's interpretation of the Nixon's dramatic visit to China. The implications were profound in a sense that the triangular relations and the power struggle in the international economy was relatively unchanged in the context of Nixon's visit. Nevertheless, the anatomy of international relations from the bilateral or even trilateral relations sometimes undermine the imperative of the international economy.

Between the Lines from Congressional Hearings

As long as the "high politics" played in Vietnam were in its highest stage, the "low politics" of trade and economic activities were also in full swing. The period from 1962 to 1967 was called the Kennedy Round in the General Agreement on Tariffs and Trade (GATT) negotiation of international trade and tariff reduction. By the end of this round in May 1967, the average reduction of tariffs reached a record 35 percent.¹⁵ Immediately after the conclusion of the Kennedy Round, the Subcommittee on Foreign Economic Policy organized a hearing on "The Future of U.S. Foreign Trade Policy" in July 1967. The purpose of this hearing was described as:

to examine the past, not to find errors, but to take stock and learn our lessons well;

to try to foresee the changes that are imminent and to direct our efforts accordingly;

to persuade the United States to dispense with policies that are anachronistic, or which cater to outmoded demands, and to reinforce our efforts to achieve significant and necessary advances in the international commerce of nations, and of the United States in particular;

to deal plainly with the special interests of our own country in agriculture and industry, while always remembering the primary importance of the general public interest;

to give our negotiators the basis for firm and flexible bargaining with our trading partners in other countries and through agencies such as GATT; and finally,

to keep constantly in mind the interdependence of the trading world and the need to maintain its growth and prosperity, which represents for us all the best protection.¹⁶

Those points presented in the above quotation and many other similar arguments expressed in the hearing demonstrated that the United States should be courageous in opening a new horizon in the area of trade. Such a move not only arrested the tide of the decrease of the United States' unilateral power but also generated an environment governed by the facilitation of the norms of the international economy. The reasons were not only for the benefit of U.S. interests but also for the consideration of the global market economy. Actually, George W. Ball, the former Under Secretary of State, had bluntly commented that:

..., the problem we encounter again and again in our trading relations with the Iron Curtain, or for that matter, even with Red China, is that our producers are denied the opportunity of

making perfectly good sales of their products in the belief that we are hurting the Iron countries by denying them something, when the fact is that they can get these same products elsewhere, and do get them elsewhere. All we are doing is an act of self-flagellation that doesn't advance the American interest.¹⁷

To be more explicit, he continued by putting forward his idea that even China and the United States could cooperate, even during the height of Cold War, in the way of underpinning market forces. He mentions that wheat, as a commodity, can be a starting point in building market incentive of exchange between the U.S. and China.

Now, I would say the same thing with regard to Red China, but with a qualification. The case I was thinking of, specifically, was American wheat. I think it is a terrible shame that we didn't offer our wheat on the market some years ago when Red China was buying from Australia and Canada. The American wheat farmer would have enjoyed a prosperity he has never known in history. The Chinaman got his wheat. He could have bought it just as well from us, and the American farmer would have enjoyed a certain prosperity, and China would have been in the same position, no matter what happened. It seems to me that this was a situation where we let a kind of primitive morality get in the way of practical good sense.¹⁸

Although what Mr. Ball's proposal at this time was a bit outrageous, compared with the battle fought in Vietnam, the gist of his argument could be understood from the Pareto preference, meaning that further exchange of goods can produce a benefit to both parties.¹⁹ In terms of Sino-America

relations, his idea gradually aroused attention. Actually, the suggestion that he made early was eventually realized after the Nixon's visit. If one looks at the trend of the change of the U.S. exportation of wheat and related products to China before and after the Nixon's 1972 visit, one will understand the importance of market. It also justifies and reinforces Mr. Ball's opinion during the aforementioned hearing held before 1972.

Table 6. 1 U.S. Exportation of Wheat and Maize to China (1971-1978), (in US\$ million)

<u>Year</u>	<u>Wheat</u>	<u>Maize</u>
1971	-	-
1972	64.3	40.3
1973	277.7	132.4
1974	234.0	95.7
1975	-	-
1976	-	-
1977	-	-
1978	250.2	111.7

Source: OECD, *Statistics of Foreign Trade, Annual: Tables by Reporting Countries*, Paris: OECD, (1971): 51, (1972): 25, (1973): 25, (1974): 25, (1975): 24, (1976): 24, (1977): 24, (1978): 24.

Hence, the unprecedented increase of the exportation of cereal indicates that the reasons behind Nixon's visit could be justified, although not solely, from the market force which, in the height of Cold War, could bridge the gap of ideological cleavage. However, the vigor of the market force could only be revealed more systematically and consistently after Deng Xiaoping's later policy of economic openness.

The Orchestration of Nixon's Visit

According to John King Fairbank, Nixon's trip to Beijing was considered as "a dramatic turn away from Cold War confrontation onto the long road of Sino-American understanding."²⁰ The enthusiasm of the U.S. people during the Vietnam war eventually cooled down and was even provoked by the huge human and economic lost in the Vietnam. In terms of humans lost, more than 46,000 American soldiers died during the conflict.²¹ In addition, in 1970, more bombs had been dropped in Vietnam than in at any other time in history.²² The withdrawal of American troops from Vietnam, elaborated further by Fairbank, will be "accompanied by an effort to normalize relations with China."²³

Henry Kissinger had revealed the decision of the withdrawal of the troops from Vietnam in his memoirs *White House Years*. From the memorandum that he sent to the President on September 10, 1969, he explained that "I do not believe that with our current plans we can win the war within two years, although our success or failure in hurting the enemy remains very important."²⁴ The problem was to decide in which way and by which means the withdrawal could be facilitated without affecting the long-term interest of the U.S. as well as preventing further penetration of the Soviet influence in Vietnam. The eventual withdrawal was put forward by the Eight points that Kissinger prepared with General Vernon A. Walters.

The Eight points dealt with procedural matters such as the time and the process as well as conceptual matters such as support for the reunification of Vietnam.²⁵

Here, in the light of diplomatic relations, the Vietnam war, certainly, help to explain some of the imperatives that the U.S. needed to reconcile, perhaps not by its own effort but by the facilitation of the world economy. However, the rapprochement with China was also denied by Kissinger as a “Card” to be played with the former Soviet Union. Instead, he mentioned that the facilitation of the visit was based on a “common concern”.

Equilibrium was the name of the game. We did not seek to join China in a provocative confrontation with the Soviet Union. But we agreed on the necessity to curb Moscow’s geopolitical ambitions. The sending of combat troops to Egypt, the circumstances that led to the Syrian invasion of Jordan, the building of a naval base at Cienfuegos, and the clashes along the Sino-Soviet border were part of a uniform challenge to the global equilibrium that had to be resisted. Moreover, both China and the United States wanted to broaden their diplomatic options: Peking, to escape the self-imposed isolation of the Cultural Revolution; Washington, to strengthen security in an international system less dependent for stability on permanent American intervention.²⁶

The amelioration of the U.S. unilateral influence would, therefore, pose the question of the search for an alternative reason underlying their relations. As mentioned earlier, the dollars crisis in 1971 juxtaposed the urgency of the U.S. in searching for a remedy for the crisis together with

sustaining its hegemonic power. In a political commentary article that appeared in *Time* magazine on August 30, 1971, the reason for Nixon's visit to China was hinted, "What he did in foreign policy with his approach to Peking he outdid in domestic affairs last week. ... The claim was merited. A show of firm leadership was clearly needed in order to get the U.S. industrial machine running smoothly once more."²⁷ Immediately after the announcement of the devaluation of the U.S. dollar, Nixon swiftly launched his "package" of economic policy at home. The program included the reduction of government spending by 4.7 billion, a 10 percent industrial credit and 10 percent import surcharge.²⁸

In terms of artificial devaluation, some statesmen and financiers perceived such a "reluctant" move "as an unthinkable national humiliation and a devastating blow to the non-Communist world's financial system, which uses the dollar as the central trading currency."²⁹ Susan Strange described the U.S. dollar as "Top Currency", defining as "the currency of the state that has world economic leadership, the currency of the predominant state in the international economy."³⁰ Apparently, these statesman and financiers did not understand that the artificial devaluation was not because the U.S. succumb to any system but was the natural prevailing forces of market liberalism. To reconcile such domestic resentments with the international community, Nixon attempted to take the initiative in preparing for the trip to China. In terms of foreign policy initiatives, that

presentation and trip will earn him the boldness and proved that Nixon could be an initiator to reorient foreign policy. In reality, as concurred by Roy Bennett, Senior Research Associate in the Center for Policy Research, it was about time “there would be a reciprocal benefit in opening the world’s market to vast United States exports and investments,....”³¹

The Preparations

In 1967, Nixon had initiated his willingness to pave the way for the rapprochement with China. His *blueprint* or the so called *guideline for operation* was first introduced in the October 1967 issue of *Foreign Affairs*. The framework of his rapprochement to China was anchored in his belief “that communism is not necessarily the wave of Asia’s future.”³² However, when he perceived the growth of South Korea, Thailand, Japan, Hong Kong and Taiwan, he concluded that “a prime reliance on private enterprise and on the pricing mechanism of the market as the chief determinant of business decision; ...”³³ In other words, it appeared that his normalization with China was an extension of his objective in influencing and changing China.³⁴ Therefore, the preparation before the final trip was organized under a sophisticated craftsmanship.

Hence, the “leak” of his intention to normalize relations with China was also facilitated by “Yahya channel” and “Romanian channel”.³⁵ Both the President of Pakistan, Yahya Khan and the President of Romania, Ceausescu agreed to help as an intermediary to bring those messages of normalization

to China. Their efforts yielded result when Chou En-lai, Vice Premier of China replied that “If the U.S. has a desire to settle the issue and a proposal for its solution, the P. R. C. will be prepared to receive a U.S. special envoy in Peking.”³⁶

In response, instead of playing with words and diplomatic tone, Nixon announced a termination of the trade embargo against China on April 14, 1971, based on market and economic incentive.³⁷ Subsequently, Nixon had arranged the “procedure” for the ground work to be laid before his final visit. He mentioned clearly in his memoirs how to formulate the preparation:

We arranged that Kissinger would fly to Vietnam for consultations early in July and then stop in Pakistan on the way back. There he would develop a stomachache that would require him to stay in bed and not be seen by the press. Then, with President Yahya’s cooperation, he would be taken to an airport where a Pakistani jet would fly him over the mountains into China. The stomachache was scheduled for July 9-11. Kissinger would then fly to San Clemente to report to me.³⁸

According to Nixon, Kissinger’s trip resulted in “Eureka”. A codeword that had been agreed upon earlier before the trip between Nixon and Kissinger, representing the arrangement of the China trip was successful.³⁹ When comparing with the Kissinger’s second trip to China on October 20, 1971, a trip for the agenda and preparing the substantial details for Nixon’s trip⁴⁰, the first trip was *de facto* ground breaking.

In order to have full confidence for the historic visit, Nixon's last preparation was actually arranged for his psychological readiness. He invited Andre Malraux, a French philosopher to the White House for the last piece of advice on the analysis of Mao and himself. Malraux described Mao as "a man inhabited by a vision" and "possessed by it".⁴¹ However, he encouraged Nixon to take the initiative because "You are about to attempt one of the most important things of our century, ... What you are going to do, Mr. president, might well have a totally different outcome from whatever is anticipated."⁴²

At last, the Nixon's trip in February 1972 to China clearly marked a tremendous alteration in terms of human perspective toward the capitalist and communist camp. No matter whether he was "the champion of capitalism"⁴³, described by *Time* magazine, his trip indicated, even precipitated the rational logic of the diplomatic importance between two countries, an evidence of the facilitation of international political economy.

NOTES

¹ Bruce Cumings, "The World Shakes China" *The National Interest*, no. 43 (Spring 1996): 29.

² Jerome Alan Cohen, Robert F. Dernberger and John R. Garson, *China Trade Prospects and U.S. Policy* (New York: Praeger Publishers, 1971).

³ *ibid.*, 249-265.

⁴ *ibid.*, 272.

⁵ The Gold Standard system was the product of Bretton Woods conference held in New Hampshire of the U.S. in 1944. Those countries that participated in the conference agreed on the acceptance of the U.S. dollars as the major currency for the international monetary system. In essence, the Gold Standard functioned by the guarantee of the U.S. to convert the gold at \$35 an ounce at anytime. Since holding gold by itself does not generate interest, those countries, therefore, demand the US dollars. In such circumstance, the heavy demand for the U.S. dollars, in the long-run, inevitably, contribute to the break-down of the U.S. dollars. See Robert S. Walters and David H. Blake, *The Politics of Global Economic Relations*, 4th ed., (New Jersey: Prentice-Hall International, Inc., 1992): 73-74. For in-depth study of the political meaning of the U.S. dollars crisis, refers to Susan Strange, "The Politics of International Currencies", *World Politics* 23, no. 2 (January 1971): 2115-31 and Susan Strange, "Protectionism and World Politics", *International Organization* 39, no. 2 (Spring 1985): 233-60. See also David P. Calleo, Harold Van B. Cleveland and Leonard Silk, "The Dollar and the Defense of the West" in *International Political Economy: A Reader*, edited by Kendall W. Stiles and Tsuneo Akaha, (New York: HarperCollins Publishers, 1991): 69-82.

⁶ *The New York Times Index 1972* (New York: The New York Times Company, 1973): 820.

⁷ *The New York Times Index 1971* (New York: New York Times Company, 1972): 781.

⁸ Michael Pillsbury, "U.S.-Chinese Military Ties?" *Foreign Policy*, no. 20 (Fall 1975): 50-64 and Roger Glenn Brown, "Chinese Politics and American Policy: A New Look at the Triangle" *Foreign Policy*, no. 23 (Summer 1976): 3-23. Obviously, there are uncountable numbers of articles and books

written for the interpretation of Nixon's visit, nevertheless, these two are distinctive not only because the angles they looked at but also the insightful hypothesis that they provided. Moreover, these two are described by Lowell Dittmer as "among the best..." See Lowell Dittmer, "The Strategic Triangle: An Elementary Game-Theoretical Analysis" *World Politics* 33, no. 4 (July 1981): 485.

⁹ "U.S.–Chinese Military Ties", op. cit., 50.

¹⁰ *ibid.*, 56.

¹¹ *ibid.*, 57.

¹² *ibid.*, 57-58.

¹³ "Chinese Politics and American Policy: A New Look at the Triangle", op. cit., 4-8.

¹⁴ *ibid.*, 8-10.

¹⁵ John S. Hodgson and Mark G. Herander, *International Economic Relations*, (New Jersey: Prentice Hall International, Inc., 1983): 259 and see also Bo Sodersten, *International Economics*, 2nd ed., (London: Macmillan, 1980): 239-242.

¹⁶ Joint Economic Committee Congress of the United States, *The Future of U.S. Foreign Trade Policy: Hearings before the Subcommittee on Foreign Economic Policy*, Vol. I, 90th Cong., 1st sess., July 11, 12, 13, 18, 19 and 20, 1967, 4.

¹⁷ *ibid.*, 278.

¹⁸ *ibid.*, 278-279.

¹⁹ Richard G. Lipsey, Peter O. Steiner and Douglas D. Purvis, *Economics*, 7th ed., (New York: Harper & Row, Publishers, 1984): 231.

²⁰ John King Fairbank, *The United States and China*, 4th ed, Enlarged (Cambridge, Mass: Harvard University Press, 1983): 457.

²¹ Stephen E. Ambrose, *Rise to Globalism: American Foreign Policy Since 1938*, 7th Revised Edition, London: Penguin Books, 1993): 251.

²² *ibid.*, 204.

²³ *ibid.*, 458.

²⁴ Henry Kissinger, *White House Years* (Boston: Little Brown and Company, 1979): 1481.

²⁵ *ibid.*, 1489-1490.

²⁶ *ibid.*, 764.

²⁷ *Time* magazine, August 30, 1971, 4.

²⁸ *ibid.* 4.

²⁹ *Time* magazine, December 27, 1971, 14.

³⁰ Susan Strange, "The Politics of International Currencies" *World Politics* 23, no. 2 (January 1971): 221.

³¹ Roy Bennett, "Nixon's New Foreign Policy: The Next Four Years" in *What Nixon's is Doing to Us*, edited by Alan Garter, Colin Greer and Frank Riessman, (New York: Haper and Row, 1973): 251.

³² Richard M. Nixon, "Asia After VietNam", *Foreign Affairs* 46, no. 1 (October 1967): 111.

³³ *ibid.*, 118-119.

³⁴ *ibid.*, 121.

³⁵ Richard Nixon, *RN: The Memoirs of Richard Nixon* (London: Sidgwick & Jackson, 1978): 546.

³⁶ *ibid.*, 547.

³⁷ *ibid.*, 548.

³⁸ *ibid.*, 553.

³⁹ *ibid.*

⁴⁰ *ibid.*, 555.

⁴¹ *ibid.*, 558.

⁴² *ibid.*

⁴³ *Time* magazine, February 28, 1972, 15.

CHAPTER 7

THE CHANGE OF U.S. POWER CONTEXT AND CHINA'S ADAPTATION TO THE WORLD ECONOMY

A reform-minded and modernizing China will continue to advance toward a market-driven system guided by law rather than by corrupt families and will better meet the material needs of its citizens.¹

Kenneth Lieberthal

Introduction

This chapter examines the change in U.S. power in relation to China from a unilateral military force to one of economic opportunity and market openness. The previous chapter noted that Nixon's visit to China in 1972 was an externalization of the market force. The end of Vietnam War gave America a respite from the tensions of the Cold War. When Deng Xiaoping officially regained his membership in the Politburo and was back on stage in August 1973,² it seemed that China was ripe for change. The Cultural

Revolution had damaged the economy and political structure. A political break-through was needed. The Open Door Policy adopted in 1978 paved the way for China to experience the world economy.

Of course joining the world stage carries with it certain concessions and responsibilities. For China to participate in global trading and monetary organizations such as General Agreement on Tariffs and Trade (GATT, superseded by the World Trade Organization (WTO) in 1995), International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD, later the World Bank)³ requires give and take.

To gain membership in WTO, China has tried to adjust to norms of the world economy that have been largely engineered by the U.S. In the study of international relations, this concept is very close to the neo-liberal school that holds that a higher level of control and a set of rules will govern some countries' policy, especially in trade regimes.⁴

This chapter, therefore, is divided into three sections. The first section analyzes how the change in the nature of power, from pure military to economic or knowledge-based, affected U.S. policy toward China. The second section pinpoints the use of trade regimes to explain how China is getting involved in the world economy. The final section introduces the concept of engagement, which is the U.S.' most recent policy toward China.

The Change of Power Context and U.S. Foreign Policy Toward China

The late 1970s and early 1980s witnessed a more pluralistic development of foreign policy among nations of different sizes. If a nation tries not to be drawn into the swamp of our contemporary world politics or even attempts to be captured in the existing situation, she has “to obtain a broad measure of consent on general principles - principles that ensure the supremacy of the leading state and dominant social class - and at the same time to offer some prospect of satisfaction to the less powerful.”⁵ Sino-American relations represented the United States’ manipulation of power in a less unilateral military coercion but on broader bases of consensus.

The test of Sino-America relations was taken further by Deng Xiaoping’s visit to the United States in early 1979. The visit was the barometer of U.S.-China relations. Both countries benefitted because a support of normalization of the U.S. economy was increased when Deng appeared before Congress.⁶ The U.S.–China Technical Accord, for example, was signed in 1984. It functions as “a general expression of intentions” between these two countries in proceeding to closer relations.⁷

The United States’ leadership in the world is changing as the nature of power changes. Unlike Ray Cline, who defines power by tangible elements,⁸ Joseph Nye believes that “power is becoming less fungible, less coercive, and

less tangible.”⁹ In particular, American culture, language, and ideas are helping sustain American power for the next decade.¹⁰ The Chinese government considers some of these elements as “spiritual pollution.”¹¹ Nevertheless, the power of spreading particular kinds of power and the ability of creating inspiring ideas is more inclined to be American based. These “soft power resources”¹² sustain America’s power.

Over time, the definition of power has enlarged. Robert Gilpin contends that “economic dependence establishes a power relationship that is a fundamental feature of the contemporary world economy.”¹³ To acquire power through economic success is possible, and by economic build-up, industrialization and modernization. Power, therefore, is an acquired status, not an ascribed one.

The remarkable visit of U.S. President Ronald Reagan to China in April 1984 consolidated the two countries’ bilateral relations while at the mercy of the Soviet Union’s political strife.¹⁴ It was the first presidential trip to China since Nixon’s 1972 ground-breaking visit. Reagan’s visit resulted in the signing of a Joint Nuclear Pact with Premier Zhao Ziyang. The Pact marked a further step toward world peace through non-proliferation and also opened the opportunity for U.S. industry to bid for a US\$20 billion contract in nuclear sector projects.¹⁵

In addition, China and U.S. foreign relations were governed more by rules, bilateral treaties and agreements. In connection with China’s moving

toward the world economy, It would be easier for the U.S. to use international economic regimes to restrain China's pace of development, at least under the consent of the U.S.. Some of the important treaties are listed below. They represent the narrowing of ideological differences by mutual adjustment.

Figure 7.1 Treaties of Mutual Agreements Signed Between the U.S. and China in the 1980s (Selected)

Date	Agreements	Concerns
April 30, 1984	Double Taxation	Avoidance of double taxation and the prevention of tax evasion
July 23, 1985	Peaceful Uses of Nuclear Energy	Extensive cooperation on the peaceful uses of nuclear energy on the basis of mutual respect for sovereignty
July 23, 1985	Fisheries off the United States Coasts	Common concern for the rational management, conservation and achievement of optimum yield of fish stocks off the coasts of the United States
March 14, 1986	Aviation: Technical Assistance	Promotion and development of technical cooperation in civil aviation
January 20, 1987	Maritime Search and Rescue	Ensure the safety of human life and property at sea and facilitate search and rescue (SAR) operations at sea
December 15, 1988	Maritime Transport	Recognizing the importance of maritime relations for both countries

Source: Department of State, "Double Taxation: Taxes on Income," April 30, 1984, *Treaties and Other International Acts Series* (TIAS), no. 12065, 2; Department of State, "Atomic Energy: Peaceful Uses of Nuclear Energy," July 23, 1985, *TIAS*, no. 12027, 2; Department of State, "Fisheries off the United States Coasts," July 23, 1985, *TIAS*, no. 12002, 2-3; Department of State, "Aviation: Technical Assistance," March 14, 1986, *TIAS*, no. 12006, 2-4; Department of State, "Maritime Search and Rescue," January 20, 1987, *TIAS*, no. 12013, 2; Department of State, "Maritime Transport," December 15, 1988, *TIAS*, no. 12026, 2.

Issues such as transport, rescue and fishing rights included above were considered "low politics" during the Cold War. Nevertheless, what was important was the mutual acceptance of these treaties by China and the U.S.. (More details will be explored in the second to last chapter). Here, I postulate a case to show how China's involvement in international trade regime will eventually shape her course of development.

International Trade Regimes and China's Internationalization

a.) The Process

The establishment of GATT was never smooth. The period between World Wars I and II was enmeshed in heavy protectionism known as the “beggar-thy-neighbor” policy.¹⁶ International trade was non-cooperative. As stated by Robert Walters and David Blake, “protection of domestic industry is to be carried out to the greatest extent possible through tariff duties.”¹⁷ In terms of willingness and capability, the United States was the sole choice to lead the development of a global trading regime. The State Department explained:

The only nation capable of taking the initiative in promoting a worldwide movement toward the relaxation of trade barriers is the United States. Because of its relatively great economic strength, its favorable balance of payments position, and the importance of its market to the well-being of the rest of the world, the influence of the United States on world commercial policies far surpasses that of any other nations.¹⁸

In fact, the United States originally wanted to construct an International Trade Organization (ITO) more encompassing than the GATT. The initiative for this first appeared in the Havana Charter,¹⁹ but was blocked by domestic businesses and protectionists. The Charter was eventually prevented from gaining full Congressional ratification.²⁰ The

United States, with seven other countries, then orchestrated on a smaller scale a conference on the comprehensive agreement on trade issues. The result of the conference became known as the General Agreement on Tariffs and Trade (GATT).²¹ According to Susan Strange, the concept of free trade under GATT was “... set by by the United States, reinforced by the wartime bargain struck with Britain.”²²

Originally, China was a founding member of GATT; the Chinese Nationalist government signed the Agreement on October 30, 1947. However, since Communist takeover after 1949 and to the unfulfilling obligation of the Taiwanese government, China withdrew its membership on March 6, 1950.²³ Furthermore, China’s close relationship with the former Soviet Union in the 1950s did not help her become a true member of the world economy, nor did China’s isolation policy in the 1960s. At the same time, though, U.S. foreign policy’s encroachment in Japan and embankment of the Four Little Dragons was transforming their economic structures through market liberalism.

b.) IPE and Chinese Economic Development

The augmentation of the market liberalism underpinning the facilitation of the U.S. initiative was realized through the practical study of

Chinese economic development and the influence of the world economy and the theoretical exploration of Adam Smith's concept of political economy:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.²⁴

In other words, the political economy crafts a balance between the state's prosperity and the well-being of individuals. Political economy on an international scale helps perpetuate prosperity which can be enjoyed by every state. Under these circumstances, the relations between China's participation in the GATT and the facilitation of U.S. foreign policy will be substantial.

With reference to their book entitled, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order*, Harold K. Jacobson and Michel Oksenberg try to give an account of the historical development and the internationalization process of China in terms of entering those organizations.²⁵ They also try to paint a general picture of the world economy by describing the establishment of the organizations after 1945. If we read between the lines, we can discern from the book that the international economic environment and the formulation of these organizations in trade and finance were tremendously affected by the United

States' initiative and endorsement. In other words, the major implication of China's entering such organizations centered on her perceptions towards those organizations and other members' reactions in relation to her possible changes when confronting the world economy.

According to Jacobsen and Oksenberg, "the ability to absorb China into the world will be substantially shaped by the perceptions and expectations of the Chinese and their trading partners concerning global economic trends and the consequences of Chinese behavior in international affairs."²⁶ That is, the process of China's entering the world economy is not static but rather a dynamic interaction of complex economic and political relations among different countries. Existing members will be concerned about whether China will abide by the rules governing each member, given that her unstable political development and the intransigent of the privatization of the state-enterprises.²⁷

Nevertheless, China's participation in these Keystone International Economic Organizations (KIEOs) was never a plain sailing. Leaning toward the Soviet Union in the 1950s and then toward inward self-reliance hampered China's economic development and internationalization.²⁸ The years before 1976 were encapsulated in ideological confrontation, antagonism and internal political instability.²⁹ Nonetheless, the People's Bank of China, the Ministry of Finance and the Ministry of Foreign Affairs

in January 1979 collaborated to formally recommend that China join the IMF and IBRD.³⁰

Jacobsen and Oksenberg define four phases in incorporating China into the KIEOs: “engagement,” “initial participation,” “mutual adjustment” and “mutual partnership.”³¹ Engagement begins with the generation of interest and the building of contacts in the negotiation process. Initial participation refers to the development of concreateed, substantial and policy planning, which for China was in the 1980s.³² It is fair to say that China remains in the mutual adjustment process, which demands close relationships among the members and monitoring each country by the others. At this level “the compatibility between the state and the international organization is tested.”³³ As time goes by, there are still many imperfections in this process, for instance, delays in project approval by the inefficient bureaucracy, the complexity of the pricing system and difficulty in collecting data.³⁴

Following this theory, the major problem would be the search for a breakthrough in moving from mutual adjustment to mutual partnership. It takes great courage and a skillful reconciliation of costs and benefits to move forward to closer commitment to the KIEOs. First, the breakthrough would require that China open her market and reduce import barriers. The more open the market, the more privileges will be enjoyed.³⁵ But, opening her market also poses a threat to the government in terms of challenges from the

rest of the world. Moreover, given China's population, trade volume³⁶ and its socialist nature, mutual partnership is indeed a big step. Even though the book was optimistic about China's participation in the KIEOs, the writers still concluded, with some skepticism, that "our study suggests the goal is realistic and worthwhile, but the path will be arduous and full of unanticipated twists and turns."³⁷

The twists and turns of China's participation in the KIEOs reached a climax in 1994, the year that wrapped up the Uruguay Round Talks 27,000 pages of agreements and prepared for the switch to WTO in 1995. Trying to jump on the WTO bandwagon and appeal to the members, especially the United States, China presented a basket of trade liberalization and tariff reduction policies. This resulted in several negotiations in April, July and December 1994 in Geneva.³⁸ China's efforts were rewarded in its signing of the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiation (Final Act) and the Agreement Establishing the Multilateral Trade Organization (MTO Agreement) in April 1994,³⁹ allowing it to be accepted as a GATT Contracting Party. But, China's application to join as a founding member of WTO, was rejected because of its lack of market openness and transparency and its lightly regulated tariff system.⁴⁰ Eventually, 81 countries became founding members of the WTO, while 50 countries were placed on the waiting list, including China.⁴¹

Actually, U.S. intellectuals and policy makers are sanguine about incorporating China into WTO. Michael H. Armacost, former U.S. Ambassador to Japan, and Lawrence J. Lau, professor at Stanford University, believe that "America stands to benefit from China's admission. U.S. companies operate best in open, non-discriminatory trade, which can be most readily assured if China participates in GATT."⁴² That said, China has to further open its market. In 1995, China agreed to a one-year cut in tariffs on 246 classes of imports as a gesture of its sincerity toward WTO.⁴³ Yet members are still waiting for concrete development of market openness and policy deregulation by China.

The WTO's idea in trade liberalization was realized and marked by the first WTO Ministerial Conference held in Singapore from December 9-13, 1996. The choice of Singapore signified her remarkable triumph as a major benefactor of market openness in trade, and marked her success story in joining the creed of market liberalism of the world economy. The conference ended with the agreement to liberalize global trade in the \$400 billion-a-year information technology market by the year 2000.⁴⁴ In February 1997, a global phone accord was the first priority of the WTO meeting in Geneva. China, however, faced a dilemma. To facilitate a dramatic deregulation and liberalization would certainly appeal to WTO members. Doing so, however, would inevitably jeopardize the state-run industrial sector.⁴⁵ Although most of the industrial sectors were never

profitable, they were an important symbol of socialism and employed millions of citizens.

All in all, China's participation and acceptance in the international organizations entails complex decisions by the Chinese government about long term commitment and structural change of the existing legal and political systems as well as painstaking deliberation among the member countries. Yet, as argued by Renato Ruggiero, Director-General of the WTO, the breakthrough from the Uruguay Round to the establishment of the WTO was a correct move because the countries that joined the WTO are “a referendum of unquestionable support for a system instrumental to growth and development.”⁴⁶ In a study carried out by the staff reporters of the *Far Eastern Economic Review*, Beijing's entry to the WTO represented the nurturing effect and the perpetuation of market liberalization through trading regimes. They concluded that “China's entry into the WTO will not require that the country immediately conform to world trading norms. It should, however, set clear timetables for China to, say, crack open markets for automobiles, or allow foreign companies to stack their products in their own warehouses.”⁴⁷ Given China's development process, market force becomes a point of intersection in U.S.-China foreign relations. In addition, in terms of Sino-America cooperations, Zbigniew Brzezinski and Michel Oksenberg even suggested that the U.S. and China should work together in

aspects related to geopolitical relations, Asian Pacific region's stability and democratization.⁴⁸

Engagement and Enlargement

President Clinton's policy toward China was affected by his "baby-boomer" and his intention to drop the Cold War containment strategy to a new objective. According to Douglas Brinkley, the search for a catch-phrase for his foreign policy became a central issue during his first months in the Oval Office.⁴⁹ After a debate among the National Security Council's (NSC) staff, they eventually came up with the "enlargement" proposal by Jeremy Rosner, the NSC's counselor and senior director for legislative affairs. Anthony Lake, National Security Adviser, proclaimed that this proposal served four objectives of America's foreign policy in the post-Cold War era.

They are:

1. to 'strengthen the community of market democracies';
2. to 'foster and consolidate new democracies and market economies where possible';
3. to 'counter the aggression and support the liberalization of states hostile to democracy'; and
4. to 'help democracy and market economies take root in regions of greatest humanitarian concern'.⁵⁰

While enlargement has been adopted as the general U.S. foreign policy objective, additionally, the empirical application of such a concept to policy with China can be qualified by "Comprehensive Engagement".⁵¹

Comprehensive Engagement was described by Winston Lord, U.S. Assistant Secretary of State for Asian and Pacific Affairs, during a hearing of the congressional Subcommittee on East Asian and Pacific Affairs on May 4, 1994.⁵² According to Winston Lord, Assistant Secretary of State for East Asian and Pacific Affairs, comprehensive engagement toward China has two levels: “First, it has enabled us to promote our multiple goals with China much more effectively. Second, it has provided a broader framework within which the Chinese leaders have greater latitude and incentive to make progress on human rights issues.”⁵³ The U.S.’ China policy served as a guiding principle to facilitate China’s involvement in world activities as well as to have China “abide by accepted international norms.”⁵⁴

As China pushes to get into the WTO, its participation in other international organizations is not to be neglected. According to the *Yearbook of International Organizations 1996/97*, China is a member of more than 1,848 international governmental and non-governmental organizations.⁵⁵ While Taiwan, according to the same yearbook, became a member of 1,248 such kind of organizations only.⁵⁶ As explained earlier by Stephen D. Krasner, such bodies of “implicit or explicit principles, norms, rules, and decision-making procedures”⁵⁷ of these international organizations will collectively transform China in the longrun.

Figure 7.2 China's Participation in International Governmental and Non-Governmental Organizations (Selected)*

Asia-Pacific Economic Cooperation (APEC)
Asia-Pacific Telecommunity (APT)
Asian and Pacific Skill Development Programme (APSDEP)
Asian Development Bank (ADB)
Asian Regional Term for Employment Promotion (ARTEP)
Asian-Pacific Postal Training Center (APPTC)
International Center for Theoretical Physics (ICTP)
International Commission for Scientific Exploration of the Mediterranean Sea (ICSEM)
International Criminal Police Organization - Interpol (ICPO - Interpol)
International Geological Correlation Programme (IGCP)
International Institute of Refrigeration (IIR)
International Maritime Organization (IMO)
Regional Energy Development Programme (REDP)
Regional Network for the Chemistry of Natural Products in Southeast Asia
United Nations Fund for Drug Abuse Control (UNFDAC)
United Nations High Commissioner for Refugees (UNHCR)
World Meteorological Organization (WMO)

*Organizations of which Hong Kong is also a member.

Source: Union of International Associations, ed., *Yearbook of International Organizations*, Vol. 2, 1996/97 (Munich: K. G. Saur, 1996): 626-636 and 281-293.

The details of how international society serves as a monitoring and transformation force will be discussed in Chapter 8. During China's move toward the WTO, the forfeiture of some domestic policies was a preliminary requirement for being accepted by the WTO.

According to Ralph C. Bryant, a senior fellow in the Economic Studies Program at the Brookings Institution, the mutual recognition and active coordination in such economic organizations will, in the intermediate or longrun, engender "multilateral surveillance."⁵⁸ The comprehensive engagement of U.S. foreign policy will help prepare that kind of transformation.

NOTES

¹ Kenneth Lieberthal, "A New China Strategy" *Foreign Affairs* 74, no. 6 (November/ December 1995): 36.

² Deng's path to regain power was relatively rapid. In 1975, he was the Director of the General Staff Department of the PLA. From January to November 1975, Deng was the acting Premier. Until his formal resignation from the Politbureau of the Chinese Communist Party, the Central Committee and the Standing Committee of the Bureau, and the Central Advisory Commission, he was China's *de facto* paramount leader. See Peter N. S. Lee, *Industrial Management and Economic Reform in China 1949-1984* (Hong Kong: Oxford University Press, 1987): 126 and *Qiushi* 22, no. 13 (1989): 7.

³ Harold K. Jacobson and Michel Oksenberg categorised these organizations as keystone international economic organization (KIEOs). China joined the IMF and World Bank in 1980, and began to apply to be a full member in GATT in 1986. See Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: University of Michigan Press, 1990): vi. More recent references to the issue of China and the world include Nicholas R. Lardy, *China in the World Economy* (Washington, D.C.: Institute for International Economics, 1994); Vincent Cable and Peter Ferdinand, "China as an Economic Giant: Threat or Opportunity?" in *International Affairs* 70, no. 2 (1994): 243-261; and Morio Matsumoto, "China's Industrial Policy and Participation in the GATT" in Japan External Trade Organization, *China Newsletter No. 112*, Sept-Oct (1994): 2-20. After a series of talks among China, the United States and the member countries, China was not admitted to the World Trade Organization (WTO). This is said to be a temporary setback in the ongoing process of internationalization. More talks and progress are expected.

⁴ Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions" in *International Regimes*, edited by Stephen D. Krasner (Ithaca and London: Cornell University Press): 273-314.

⁵ Joseph S. Nye, Jr., *Bound To Lead: The Changing Nature of American Power* (New York: Basic Books, 1991): 32.

⁶ *Hong Kong Standard*, January 12, 1979.

⁷ *South China Morning Post*, January 4, 1984.

⁸ Ray Cline divides power into two components, tangible and intangible. The formula is:

$P_p = (C + E + M) * (S + W)$, where:

P_p = Perceived Power

C = Critical Mass = Population + Territory

E = Economic Capability

M = Military Capability

S = Strategic Purpose

W = Will to Pursue National Strategy

Accordingly, C, E and M are tangible, while S and W are intangible. See Ray S. Cline, *World Power Assessment: A Calculus of Strategic Drift* (Boulder: Westview Press, 1977): 11.

⁹ Joseph S. Nye, op. cit., 188.

¹⁰ *ibid.*, 194-197.

¹¹ Lowell Dittmer, *China Under Reform* (Boulder: Westview Press, 1994): 129

¹² Joseph S. Nye, op. cit., 200.

¹³ Robert Gilpin., *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987): 10.

¹⁴ *South China Morning Post*, April 27, 1984.

¹⁵ *South China Morning Post*, April 28, 1984.

¹⁶ Robert S. Walters and David H. Blake, *The Politics of Global Economic Relations*, 4th ed. (New Jersey: Prentice-Hall International, Inc., 1992): 14.

¹⁷ *ibid.*

¹⁸ Joan Edelman Spero, *The Politics of International Economic Relations*, 4th ed. (London: Routledge, 1992): 68.

¹⁹ The Havana Charter “was an essential part of the plan to create a new, internationally managed economic system in the postwar era and, like the

rest of that plan, was a product of strong U.S. leadership.” See Joan Edelman Spero, *The Politics of International Economic Relations*, 4th ed. (London: Routledge, 1992): 68.

²⁰ *ibid.*, 69.

²¹ John S. Hodgson and Mark G. Herander, *International Economic Relations* (New Jersey: Prentice-Hall, Inc., 1983): 256.

²² Susan Strange, *States and Markets*, 2nd ed. (London: Pinter Publisher, 1994): 186.

²³ Wenguo Cai, “China’s GATT Membership: Selected Legal and Political Issues” *Journal of World Trade* 26, no. 1 (February 1992): 36.

²⁴ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. 1, eds. R. H. Campbell and A. S. Skinner (Oxford: Clarendon Press, 1976): 428.

²⁵ Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: The University of Michigan Press, 1990).

²⁶ *ibid.*, 13.

²⁷ *ibid.*, 160-162.

²⁸ During the 1950s and 1960s, the analysis of Chinese foreign relations was dominated by the theory of the “strategic triangle.” See John W. Garver, *Foreign Relations of the People's Republic of China* (New Jersey: Prentice-Hall, 1993).

²⁹ Although greatly criticized, the article most cited with reference to factionalism in CCP was Andrew J. Nathan, “A Factionalism Model for CCP Politics” in *China Quarterly*, no. 53 (Jan/Mar, 1973): 34-66. There are many books referring to the disturbing years, such as Roderick MacFarquhar and John K. Fairbank, eds., *The Cambridge History of China: Volume 14, The People's Republic, Part I: The Emergence of Revolutionary China, 1949-1965* (London: Cambridge University Press, 1987) and Kuang Sheng Liao, *Antiforeignism and Modernization in China*, 3rd ed. (Hong Kong: The Chinese University Press, 1990): Chapter. 10.

³⁰ Harold K. Jacobson and Michel Oksenberg, *op. cit.*, 69.

³¹ *ibid*, 107.

³² *ibid*, 107-128.

³³ *ibid*, 107.

³⁴ *ibid*, 152-154.

³⁵ *ibid*, 158.

³⁶ The trade volume between China and the Association of South East Asian Nations (ASEAN) in the first half of 1994 was \$5.518 billion dollars, 43.1 percent more than that of the previous year. The United States trade deficit with China was well over \$29.5 billion dollars in 1994. Sources from *China Daily*, October 9-15, 1994 and the *International Herald Tribune*, February 18-19, 1995, 9, respectively.

³⁷ Harold K. Jacobson and Michel Oksenberg, *op. cit.*, 169.

³⁸ *Hong Kong Economic Journal*, April 11, 1994, 7; *Hong Kong Economic Journal*, July 12, 1994, 6; *International Herald Tribune*, July 25, 1994, 7 and *Hong Kong Economic Journal*, December 22, 1997, 2.

³⁹ Guiguo Wang, "China's Return to GATT: Legal and economic Implications" *Journal of World Trade* 28, no. 3 (June 1994): 51.

⁴⁰ *ibid*.

⁴¹ *South China Morning Post*, July 15, 1995, 1.

⁴² *International Herald Tribune*, December 20, 1994, 4.

⁴³ *International Herald Tribune*, January 18, 1995.

⁴⁴ *Hong Kong Economic Journal*, December 14, 1996, 2.

⁴⁵ *International Herald Tribune*, February 13, 1997, 1, 7.

⁴⁶ *International Herald Tribune*, December 27, 1996, 8.

⁴⁷ Matt Forney and Nigel Holloway, "In Two Minds", *Far Eastern Economic Review*, June 19, 1997, 68-69.

⁴⁸ Zbigniew Brzezinski and Michel Oksenberg, "If China and America Learn to Work Together", *International Herald Tribune*, June 17, 1997, 8.

⁴⁹ Douglas Brinkley, "Democratic Enlargement: The Clinton Doctrine", *Foreign Policy*, no. 106 (Spring 1997): 113.

⁵⁰ *ibid.*, 116.

⁵¹ Joseph S. Nye, Jr., "The Case for Deep Engagement," *Foreign Affairs* 74, no. 4 (July/August 1995): 94.

⁵² U.S. Senate Committee on Foreign Relations, *U.S. Policy Toward China: Hearing before the Subcommittee on East Asian and Pacific Affairs*, 103rd Cong., 2nd sess., 4 May 1994, 4.

⁵³ Senate Committee on Foreign Relations, *U.S. Policy Toward China: Hearing before the Subcommittee on East Asian and Pacific Affairs*, 103rd, Cong., 2nd sess., 4 May 1994, 4

⁵⁴ *ibid.*

⁵⁵ Union of International Associations, ed., *Yearbook of International Organizations*, Vol. 2: 1996/97 (Munich: K. G. Saur, 1996): 281-293.

⁵⁶ *ibid.*, 1392-1400.

⁵⁷ Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", in *International Regimes*, edited by Stephen D. Krasner (Ithaca and London: Cornell University Press, 1983): 2.

⁵⁸ Ralph C. Bryan, *International Coordination of National Stabilization Policies* (Washington, D. C: The Brookings Institution, 1995): 114.

PART FOUR: U.S. ENGAGEMENT WITH CHINA

CHAPTER 8

U.S. FOREIGN POLICY DIVERGENCES WITH CHINA

Despite current tensions, China and the United States continue, in my view, to have a common interest in shaping the peaceful evolution of Asia.¹

Henry A. Kissinger

Introduction

This chapter attempts to explore some important discrepancies between China and the United States in the course of the construction of their foreign policy after the Cold War. The crack-down on June 4, 1989 of the student demonstration witnessed a historical moment when the illusion of government reform and hope was shattered in the internal politics of China. However, some scholars considered the event as an inescapable period for the development of Civil Society.² In terms of Sino-American foreign relations, nevertheless, the incident was considered as a new phase in their foreign relations. Right after the incident, the U.S. House of Representatives and Senate attempted to adopt an abortive resolution to

impose sanction on China between June 29 and July 4, 1989.³ Despite the various comments, severe criticisms from the U.S. government and even the curb on loans, Sino-American trade was not affected. A US\$10.4 billion of Balance of Payment Deficit was recorded in 1990.⁴

The dilemma between the economic and political balance of U.S. foreign policy toward China is considered as a foreign policy divergence between them. Among others, intellectual property rights, the Taiwan issue and facilitation of the Most-Favored-Nation status (MFN) as a tool to monitor China's human rights are the most encompassing bones of contentions. The following sections are devoted to the analysis of these factors which will affect future Sino-America relations.

Intellectual Property Rights (IPR) Disputes

The trigger of possible trade sanctions between the United States and China was released when both sides finally reached an agreement over the trade disputes regarding piracy and property rights on June 17, 1996. Accordingly, China agreed to close down fifteen factories which were named by the United States as producers of pirated CDs. Moreover, China also accepted the opening of its market to American goods, especially film and media products.⁵ In the short run, the agreement between U.S. trade representative Charlene Barshefsky and Chinese representative Zhang

Yuejiao eased problems in property rights and piracy. However, the political brinkmanship between the two countries has not guaranteed long-run economic and foreign relations. If a settlement had not been reached, the implementation of trade sanctions on Chinese imports would have been a serious setback to both sides' engagement policy, a result which was mutually unwanted. In retrospect, Sino-American relations have been at a nadir since China launched military exercises near Taiwan's soil before Taiwan's presidential election in March 1996. What both sides need, in the long-run, is a solution which can realize their wants without degenerating further their "Fragile Relations"⁶

a.) Historical Development, Process and the Immediate Results of Disputes in IPR

China adopted an economic open door policy after the Third Plenum of the Chinese Communist Party's (CCP's) Eleventh Central Committee in December 1978. Since then, trade, economic openness, modernization and marketization have become the major developmental goals. Trade relations with many developing as well as developed countries have constituted a gigantic component of its economic activities during this process. In general, China's economic development has been unprecedented. In addition, as William Overholt demonstrates in his book *The Rise of China*, China's trade

relations with the United States have leaned more toward closeness and cooperation than antagonism and hostility.⁷ Moreover, Zbigniew Brzezinski, former security advisor to U.S. President Jimmy Carter, recently called for an open invitation of China to join the Group of Seven because “China is a genuine economic success and a major military power”.⁸

However, in reality, the trade relations between China and the United States have had twists and turns. Bilateral trade between China and the United States has enhanced China’s economic development, but at the same time trade frictions such as balance of payment deficits, infringement on IPR and environmental degradation have emerged. Undeniably, the vigorous trade between China and the United States has benefited the former more than the later. For example, from 1985 to 1993, U.S. imports from China increased by 716 percent; while, U.S. exports to China increased 128 percent.⁹ In addition, the U.S. trade deficit with China hit a record from 1988 to 1996.

Table 8.1 U.S. Trade Imbalance With China (1988-1996), (in US\$ billion)

Years	US Exports	US Imports	US Balance
1988	5.0	8.5	-3.5
1989	5.8	12.0	-6.2
1990	4.8	15.2	-10.4
1991	6.2	19.0	-12.8
1992	7.5	25.7	-18.3
1993	8.8	31.5	-22.8
1994	9.3	38.8	-29.5
1995	11.7	45.6	-33.9
1996*	12.0	51.5	-39.5

* Data from *Beijing Review*, April 7-13, 1997, 21.

Source: *The China Business Review* 23, no. 3 (May-June 1996): 41.

The cumulative effects of this deficit have inevitably placed pressure on the U.S. government to further trade agreements and negotiations. Benefiting from the MFN treatment which has been granted by all trading partners in 1980¹⁰ as well as the heavy demand for Chinese goods, China's trade with the United States has become more important, not only in monetary terms but also in the fairness and openness of trading practices.

According to Article 5 of the Memorandum of Understanding Between the Government of the United States and the People's Republic of China (PRC) on the Protection of Intellectual Property, "Both Governments will provide procedures and remedies to prevent or stop, internally and at their borders, infringement of intellectual property rights and to deter further infringement."¹¹ Under these circumstances, China and the United States have mutually agreed to respect and observe the rules and binding forces underpinning their trade relations. Moreover, China also agreed to accede to the Berne Convention for the Protection of Literary and Artistic Works and the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms.¹² As a signing party, China's commitment and the enforcement of IPR protection has thus become a substantial issue.

b.) The Process and the Escalation of Confrontation

According to a recent report prepared by the United States General Accounting Office entitled *U.S.-China Trade: Implementation of Agreements on Market Access and Intellectual Property*, the Chinese government was considered to have made some progress in strengthening the laws and regulations of IPR protection, but remained weak in their enforcement and implementation.¹³ In recent years, the United States has presented several options to the Chinese government to improve IPR protection: maintaining bilateral discussions, listing China under the “Super 301” clause and cooperating with other international organizations such as the World Intellectual Property Organization(WIPO) and the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) to provide the Chinese government with education and training.¹⁴

Nevertheless, these measures have contributed very little to preventing IPR infringement in China. In the first place, IPR laws apply differently to the central and provincial governments.¹⁵ For example, administration for industry and commerce on the provincial level is theoretically under the jurisdiction of the State Administration for Industry and Commerce at the state level. The former has the right to review and decide on trademark infringement issues as well as the right to “enforce the local trademark regulations, which may be different from those of the central government or another province’s regulations.”¹⁶ The uneven

distribution of power has given rise to confusion and sluggishness in processing infringement complaints. Secondly, enforcement rights and the responsibilities of different ministries are loosely defined.¹⁷ For instance, the Press and Publications Administration, the Ministry of Radio and Television, and the Ministry of Culture respond individually under different circumstances, but there are no clear boundaries for the proper management of complaints.¹⁸ Last but not least, each individual ministry has a unique jurisdiction over which foreign sound recording should be imported to China. Accordingly, sixty-seven audio-visual companies are under the control of the Ministry of Radio and Television while twenty companies are monitored by the Ministry of Culture.¹⁹ That kind of responsibility sharing system generates the basic problem of conflict of interest since the more companies under one's jurisdiction, the higher the possibility of being accused of infringement. As long as no one wants to be charged with infringement, it is only natural to complicate the matters and create more loops before filing the complaints.

As a result, IPR problems have escalated. The first case involving a complaint over IPR infringement on software by the Business Software Alliance (BSA) was filed with the Intellectual Property Tribunal of the Beijing Intermediate People's Court in March 1994.²⁰ Five Chinese retail stores were charged with selling unauthorized software. Eventually, Chinese officials "seized more than three hundred software programs, CD-record

only memory (ROM) disks and six computers suspected of containing illegal software.”²¹ At about the same period, on March 17, 1994, the Microsoft Corporation of the United States won a similar case and was compensated 48,693.46 *yuan* after a verdict by the Shenzhen Municipal Industry and Commerce Administration Bureau.²² The verdict ended a two and a half year case in which Microsoft accused the Reflective Material Factory of Shenzhen University of producing the unique hologram “MICROSOFT” and “MS-DOS” labels that were widely found in many counterfeit softwares.²³ However, the modicum compensation did not cover the true losses which resulted from the infringement. Cases such as this have not been haphazard individual cases; they have revealed a growing problem to the United States, with the implication that heavier trade with China will heighten the possibility of IPR infringement by retail outlets.

c.) The Immediate Cause and Consequences

On February 26, 1995, China and the United States signed the PRC, US Intellectual Property Rights Protection Understanding. According to this understanding, China has to begin efforts in enforcing IPR by initiating short-term as well as long-term programs. In the short-run, China was expected to launch intensive investigations against any manufacturers that produced pirated products. In the long-run, more cooperative actions

between state and municipal levels were expected to be taken in order to enforce IPR.²⁴ However, China could not live up to the commitments that it had made in the Agreements and the United States thus condemned China for not doing its utmost in implementing the said requirements. As a result, factors which infringed on IPR blossomed, greatly damaging the interests of American businesses, especially in the areas of music, films and software products. For instance, it is believed that there are more than thirty factories producing 100 million pirated compact disks and CD-ROMS in Guangdong province.²⁵ The United States, having no alternative, threatened to impose a US\$2 billion sanction on imports from China if no substantial measures to combat piracy were taken before the deadline of June 17, 1996. In retaliation and in the name of “safeguarding state sovereignty and national dignity”,²⁶ the Chinese also threatened to impose similar sanctions, effective the same day, on U.S. imports if sanctions were *de facto* imposed on China. Eventually, the threatened sanctions were dropped after an agreement was reached between China and the United States in which China agreed to close down fifteen factories and allow U.S. imports of cultural and media products. Thus, the latest figures indicated that the pace of anti-piracy policy gained momentum. However, as Chen Jiakui, Head of Guangdong’s office on copyright violations, mentioned “... that winning the fight against piracy would involve far more than arresting the factory managers and that backers—often Hong Kong and Taiwan businessmen involved in organized

crime—are more difficult to catch.”²⁷ The future intellectual property rights disputes between China and the U.S. will be their bones of contention.

Taiwan as Intervening Variable

a.) Taiwan and the United States’ Enlargement of Relationship

According to Winston Lord, the formal position of the U.S. on Taiwan issues will be “friendly but unofficial”.²⁸ In terms of relations toward China, engagement and enlargement are the principal factors, conveyed by Joseph S. Nye, Jr., the former Assistant Secretary of Defense for International Security Affairs.²⁹ Nevertheless, the relations between the U.S. and Taiwan are still captured in the Taiwan Relations Act and the three Joint Communiqués.³⁰

The 104th Congress passed a bill on April 6, 1995. The added section 19 clearly declared that “there are no legitimate foreign policy grounds for preventing members of the government chosen by the people of Taiwan from making private visits to the United States.”³¹ The new amendment allows elected leaders or representatives of the Republic of China (ROC) to pay a visit to the U.S.³² The most significant political achievement of Taiwan in the recent decades came when President Lee Teng-hui was elected in

March 1996. Apparently, Taiwan president Lee's visit to Cornell University was based on this amendment. The governments of the United States and Taiwan orchestrated the grand tour.

In terms of domestic politics, the election was a political triumph. However, in terms of Sino-American relations, it nearly became the immediate cause of the entire break-down of their foreign relations. A series of military exercises came afterward. The uncompromising and drastic missile tests and military exercises before and after the election in the north of Taiwan (a hairpin close to the coastal area on a world map scale) clearly portrayed the Chinese government's wrath with Taiwan's newly elected President Lee Teng-hui as well as his visit to his alma mater, Cornell University.³³

In fact, Taiwan's general election consolidated its pace of internationalization. Its strive for international recognition was followed by the policy of *Global Reach*. Uneasy with the enormous economic success while making little progress in international political development, Prime Minister Lien Chan took the opportunity to travel abroad after Lee's visit to Cornell. No sooner had he finished a quick trip to the Dominican Republic in August 1996, as an honorable guest at the presidential inauguration, than he turned up in Kiev, Ukraine in a ceremony to receive an honorary degree. Both activities were deemed as outrageous by the Chinese government. The

following activities are among those facilitated by Taiwan as ways of provoking China.

Figure 8.1 Chronological Developments of Taiwan's Activities Deemed Provocative to Mainland China (Selected)

Date	Events
August 1996	Lien Chan stopover in the United States
August 1996	Taiwan government delayed the approval of investment to China
December 1996	Taiwan curb trade with China as retaliation to South Africa's rapprochement to Mainland China
December 1996	Meetings on National Development
January 1997	Dalai Lama accepts invitation to Taiwan

Source: *International Herald Tribune*, 8 August 1996, 5; 17-18 August 1996, 1; 30 November-1 December 1996, 5; 14 January 1997, 4. and *China Times* 26 December 1996, 2.

Politically, the Taiwan government is playing a game of seesaw in manipulating money and power. Strong economic growth bolsters Taiwan's economic robustness, but since her international political power is still encapsulated by the Chinese military threat, Taiwan has to build its international recognition through many tools: an alma mater trip, presidential inauguration trip, honorary degree trip and so forth. Nevertheless, whether economic power can be translated into political muscle also depends on its U.S. relations, either governed in the Taiwan Relations Act or facilitated by further U.S. foreign policy. Understandably, stability in the Asia Pacific region is still a fundamental national interest of the United States.

b.) Taiwan and China's Complex Relations

To begin with, the relationship between Taiwan and China is complicated as well as controversial. It is complicated because their relations interweave a mixed feeling of long cultural bondage and realistic antagonism. In retrospect, the bombardment of Taiwan island and the Taiwan Straits incident in the late 1950s laid the underlying threat of military attack from Communist China. Still worse, Taiwan lost her seat in the United Nations in the fall of 1971. That incident, nevertheless, motivated her to restore her international status in other areas or through other regional organizations. Internally, Taiwan is running her own government under a democratic system. The presidential election was held in 1996. Acknowledging those economic development (as discussed in chapter three) and democratization, the future road that leads to "peaceful unification" depends on Taiwan and China's genuine and sincere talks, which should take long time, nevertheless. If Taiwan's Straits Exchange Foundation (SEF) and the Association for Relations Across the Taiwan Straits (ARATS) of China can quickly resume contact³⁴ with each other, the gap between them will be bridged more easily.

On the contrary, if we look at their economic relationship in the recent years, the picture is more promising, or even astonishing. Throughout the years, the economic and trade relations between Taiwan and mainland China were on the increase, especially when China launched its Open Door

Policy in 1979. It can be seen from Table 8.3 that bilateral trade between Taiwan and China has been growing gradually.

Table 8.3 Trade Dependency Ratio Between Taiwan and China (1979-1994)

Unit: percent

Year	Taiwan with China		
	Export	Import	Total
1979	0.13	0.38	0.25
1980	1.19	0.39	0.79
1981	1.7	0.35	1.05
1982	0.88	0.44	0.68
1983	0.63	0.44	0.55
1984	1.4	0.58	1.06
1985	2.04	0.58	2.17
1986	2.29	0.60	1.49
1987	3.7	0.83	1.38
1988	4.38	1.22	2.47
1989	4.38	1.22	2.94
1990	4.88	1.4	3.32
1991	6.12	1.79	4.16
1992	7.72	1.55	4.83
1993	9.25	1.43	5.36
1994*	15.17	1.39	8.3

Note:* From January to April

Source: *Hong Kong and Macau Monthly*(in Chinese), ROC Executive Yuan China Committee, July 15, 1994, 28.

Moreover, Taiwan's huge foreign exchange has been channelled to the Mainland. Up to 1995, more than 15 billion dollars have been invested in China.³⁵ It can be seen from the evidence available that Taiwan and China have been conducting a colossal trade and economic relationship. Subsequently, a more subtle argument behind the increase of investment in the Mainland, nevertheless, could be problematic particularly when their political and foreign relationship are in trouble. The suspicion is, undoubtedly, the most fundamental concern of the Taiwanese. It follows the

debate of whether this kind of investment should be limited to an extent that it can be controlled within the hands of the Taiwan government.

At last, it is not a simple investment opportunity once the door of the Mainland has been opened. The calculation includes the economic benefit of different investors, the foreign policy initiations of Taiwan, the repercussion effect of the Mainland and the perception of the United States. It is, *de facto*, a crucial matter to which we should pay very close attention in order to see what happens in the future. If economic measures become the dominant orientation of foreign policy, one should also weigh the risk of putting nearly all the eggs in a single basket, which is extremely fragile in terms of political sensitivity.

MFN as Monitoring Tool

In general, the Most-Favored-Nation status has long been used as the tool to monitor communist countries' economic activators in the world economy. In 1951, The Trade Agreements Suspension Act of the U.S. prohibited the MFN status to Former Soviet Union and China.³⁶ In 1974, the Act was amended under the Jackson-Vanik Amendment. The Amendment allowed the U.S. to provide MFN status to non-market economies on condition that the U.S. president should report twice a year to

the Congress if those non-market economies impede their emigration policy.³⁷

In particular, China was awarded the MFN status in 1980 under the U.S.-China Trade Agreement as a result of the 1979 formal normalization agreement. Sino-American economic and business relations suddenly burst into an all-round cooperation. According to a Congressional hearing held in 1982, for example, in 1981, Chinese representatives from the Shanghai Investment and Trust Corporation (SITCO) visited the U.S. Department of Commerce and the Chinese representatives of the International Trade Research Institute of the Ministry of Foreign Trade paid a visit to the U.S. to study market research techniques.³⁸ In essence, the award of MFN status to those non-market economies was justified by the national interests of the United States. The hearing remarked:

MFN status for Hungary, Romania, and China have served U.S. economic interests well and should continue to do so in the future. Extension of the waiver authority under Section 402 of the Trade Act for these countries is in our national interest. It will continue the development of our economic and commercial relations with these countries and support the expansion of our economic cooperation on a firm and enduring basis.³⁹

Seeing the improvement of Sino-American economic relations, the foreign policy orientation was disrupted by the Chinese crackdown on the student demonstration in Tiananmen Square. Used as the monitoring tool,

argued Nicholas R. Lardy, the MFN toward China was thereafter used “as a major lever to encourage the Chinese government to improve human rights, to limit the spread of nuclear weapons and to further open China’s market to U.S. goods in order to reduce the large and growing bilateral trade imbalance.”⁴⁰

On both May 29 and June 26, 1991, a special hearing was organized by the Committee of Foreign Affairs on the issue of MFN status for China.⁴¹ Among others, the participants included Winston Lord, Former American ambassador to China, Richard Holbrooke, Assistant Secretary of State for East Asia, Edward Friedman, professor of Political Science at the University of Wisconsin, Fang Lizhi, a leading Chinese advocate for democracy and Zhao Haiqing, a representative from the International Federation of Chinese Students in the U.S.⁴²

Commercial as well as political policy, the MFN status with China, however, was strongly characterized by the facilitation of its influence to China to abide by the international rules. As proclaimed during the hearing, MFN was vital because “If we deny MFN to the P.R.C., it’s argued, China will happily withdraw into its cocoon and we will hurt progressive elements in the ruling elite in addition to losing all of our influence with that nation.”⁴³ Clearly, the MFN as “a key instrument of leverage with China”⁴⁴ was embodied in the general framework of this policy.

In addition to intellectual property rights infringement and market openness, the facilitation of MFN as an instrument to induce China to recognize universal human rights was further confirmed in another hearing held on March 24, 1994 entitled *Human Rights and MFN*, before the International Security, International Organizations and Human Rights Subcommittees.⁴⁵ These subcommittees were looking for resolutions by using the MFN in monitoring the degree to which China abides by universal human rights. They were focusing on the following five conditions:

1. taking steps to begin adhering to the universal declaration of human rights;
2. releasing and providing an acceptable account for Chinese citizens imprisoned or detained for the nonviolent expression of their political and religious beliefs, including such expression of beliefs in connection with the Democracy Wall and Tiananmen Square movements;
3. ensuring humane treatment of prisoners, such as by allowing access to prisons by international humanitarian and human rights organizations;
4. protecting Tibet's distinctive religious and cultural heritage; and
5. permitting international radio and television broadcasts into China.⁴⁶

The above mentioned problems were exactly the major concerns of the U.S. In fact, more human rights related problems such as Shanghai orphan children abuse, high death rate in orphanages, the debate over Asian values vs. the universality of human rights and the imprisonment of Wei Jingsheng have been brought to the attention of the U.S., too.⁴⁷

Nevertheless, in deciding to withdraw China's MFN status, the White House should also face the huge possible economic loss caused by the retaliation from the Chinese. A study carried out by the World Bank indicated that if MFN status were withdrawn in 1990, the sales of Chinese products to the U.S. would have been reduced by 43 to 96 %, an all-or-nothing economic battle.⁴⁸

In addition, it seemed that the facilitation of human rights recognition was not correctly maintained by using the MFN status as a monitoring measure. Eventually, the MFN ceased to be the leverage to monitor human rights in China when the linkage between human rights and MFN was dropped. The crux of the problem, as mentioned by the U.S. Department of State Human Rights Report in February 1995 was due to the fact that "The People's Republic of China (PRC) is an authoritarian state in which the Chinese Communist Party (CCP) monopolizes decision-making authority."⁴⁹

The most important of all, nevertheless, is that MFN issue provides a useful tool to facilitate the U.S. foreign policy in shaping China toward more market-oriented. Therefore, the failure to grant MFN status to China, according to Laura D'Andrea Tyson, former chief economic adviser to President Clinton, "would prove not only ineffective, but counterproductive. It would impose substantial economic costs on the U.S.

while jeopardizing China's peaceful transition to a more market-oriented, open society that respects the rule of law."⁵⁰

Summary and Conclusion

From time to time, trade and economic relations have become the major issue of foreign relations between China and the United States in the post Cold War era. Trade, together with the huge Chinese market, acts as the major instrument for her economic development. However, the Chinese ways of practising trade and her perception toward trading activities are different from that of the international society. Moreover, the complexity of the Taiwan issue has been pain on the neck for the Chinese government since 1949. Nevertheless, the post-Cold War Sino-American relations witnessed the continuation of the granting of MFN status by the U.S. government, even though human rights improvements seems unnoticeable. The engagement of the U.S.'s Chinese foreign policy, as explored, was confronted with many difficulties. However, if we use larger scales of measurement such as marketization and China's involvement in the world economy, the picture of Sino-American divergence might be perceived from other convergent points of view. These points are what the following chapter is going to explore.

NOTES

¹ *United States-China Relations* 25, no. 1 (Summer 1996): 3.

² David Strand, "Protest in Beijing: Civil Society and Public Sphere in China" *Problems of Communism* (May-June 1990): 1-19; Lawrence R. Sullivan, "The Emergence of Civil Society in China, Spring 1989" in *The Chinese People's Movement Perspectives on Spring 1989*, edited by Tony Seich (New York: M. E. Sharpe, Inc., 1990): 126-144 and Heath B. Chamberlain, "On the Search for Civil Society in China" *Modern China* 19, no. 2 (April 1993): 199-215.

³ *Beijing Review*, October 21-27, 1996, 14.

⁴ *The China Business Review* 23, no. 3 (May-June 1996): 41.

⁵ *South China Morning Post*, 23 June 1996.

⁶ *A Fragile Relationship* is the title of a book written by Harry Harding to show the foreign relations between China and the U.S. after 1972. The book details the uncertainties and the ups and downs of foreign relations between them. Harry Harding, *A Fragile Relationship: the United States and China Since 1972* (Washington, D.C.: The Brookings Institution, 1992).

⁷ William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York: W. W. Norton & Company, 1993), 415.

⁸ *International Herald Tribune*, 26 June 1996, 8.

⁹ *Financial Times*, 13 February 1995.

¹⁰ China's bilateral MFN treatment with the United States is restricted by the Jackson-Vanek amendment to the 1974 U.S. trade act, that required "annual presidential certification that China was not violating human rights by placing restrictions on emigration". It implanted the fundamental antagonism between China and the U. S. in the renewal of MFN treatment on yearly bases. See Harold K. Jacobson and Michel Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order* (Ann Arbor: The University of Michigan Press, 1990), 92.

¹¹ Department of State, "Intellectual Property: Memorandum of Understanding Between the United States of America and the People's Republic of China," 17 January 1992, TIAS no. 12036, 8.

¹² *ibid.*, 6.

¹³ United States General Accounting Office. 1995. *U.S.-China Trade: Implementation of Agreements on Market Access and Intellectual Property*. Report to the Honorable Hank Brown, U.S. Senate, January 1995, 7.

¹⁴ *ibid.*

¹⁵ *ibid.*, 44.

¹⁶ *ibid.*

¹⁷ *ibid.*, 45.

¹⁸ *ibid.*

¹⁹ *ibid.*

²⁰ *ibid.*, 48.

²¹ *ibid.*

²² Chang Wen, "Comments on the Case of Infringement on the MICROSOFT/MS-DOS Trademarks" *China Patents & Trademarks Quarterly* 3, no. 42 (July 1995), 88.

²³ *ibid.*

²⁴ *China Law & Practice* 9, no. 3 (31 March 1995), 6.

²⁵ *International Herald Tribune*, 18 June 1996, 1.

²⁶ *International Herald Tribune*, 16 May 1996, 1.

²⁷ Seth Faison, "China's New Anti-Piracy Drive Brings Results", *International Herald Tribune*, April 8, 1997, 16.

²⁸ United States Information Service, *Foreign Policy Backgrounder*, "Lord: U.S. Seeks to Engage, Not Contain China" (5 July 1996): 1.

²⁹ Joseph S. Nye, Jr., "The Case for Deep Engagement" *Foreign Affairs* 74, no. 4 (July/August 1995): 94.

³⁰ "Lord: U.S. seeks to Engage, Not Contain China", op. cit., 5.

³¹Section 1. Public Law 96-8 (22 U.S.C. 3301-3316), "Taiwan Relations Act", Section 19. More details of the United States and Taiwan's foreign relations in terms of documentation can be located in Stephen P. Gilbert and William M. Carpenter, eds., *America and Island China: A Documentary History* (New York: University Press of America, 1989).

³² The whole amendment is as follows:

"Sec. 19. the Congress further finds and declares that there are no legitimate foreign policy grounds for preventing members of the government chosen by the people of Taiwan from making private visits to the United States. Accordingly, notwithstanding any other provision of law, no individual from the democratically elected leadership chosen by the people of Taiwan or their elected representatives may be excluded from the United States on the basis of a determination by the Secretary of State that the entry or proposed activities in the United States of such individual would have potentially serious adverse foreign policy consequences for the United States."

The above mentioned bill was introduced collectively by Mr. Torricelli, Mr. Gilman, Mr. Lantos, Mr. Gedjenson, Mr. Solomon, Mr. Ackermen, Mr. Rohrabacher, Mr. Faleomavaega, Mr. Brown of Ohio, Mr. Deutsch, and Ms. Pelosi in the House Committee on International Relations, H. R. 1460., 104th Cong., 1st sess., 6 April 1995.

³³ *Far Eastern Economic Review*, 14 September 1995, 22.

³⁴The Taiwan Straits Exchange Foundation(SEF) and the Association for Relations Across the Taiwan Straits(ARATS) were established to settle their complex issues of unification. The first meeting was held in Singapore in 1993. However, they cancelled the scheduled meetings after Lee's visit to Cornell, without announcing the date of resumption yet. See The Economic Intelligence Unit, *Country Report: Taiwan*, 3rd quarter 1995, p.8.

³⁵The Economist, *The World in 1996*, 72.

³⁶ Jaw-Ling Joanne Chang, "The U.S. Congress v. the White House: A Case Study of Most-Favorde-Nation Status for the PRC, 1990-92" *EurAmerica* 23, no. 2 (June 1993): 9.

³⁷ *ibid.*

³⁸ U.S. House Committee on Ways and Means, *Extension of MFN Status to Romania, Hungary, and the People's Republic of China: Hearing before the Subcommittee on Trade, 97th Cong., 2nd sess., July 12 and 13, 1982*, 96.

³⁹ *ibid.*, 97.

⁴⁰ Nicholas R. Lardy, *China in the World Economy* (Washington, D.C.: Institute for International Economics, 1994): 99.

⁴¹ U.S. House Committee of Foreign Affairs, Subcommittee on the Human Rights and International Organization, *MFN Status for China: Hearing before the Subcommittee of the Asian and Pacific Affairs*, May 29 and June 26, 1991.

⁴² *ibid.*, 2.

⁴³ *ibid.*, 7.

⁴⁴ *ibid.*, 8.

⁴⁵ U.S. House Committee of Foreign Affairs, *Human Rights and MFN: Hearing befroe the International Security, International Organizations and Human Rights Subcommittee*, 104th Cong., March 24, 1994.

⁴⁶ *ibid.*, 7-8.

⁴⁷ *China Rights Forum* (Spring 1996): 4-31; *China Rights Forum* (Fall 1996): 32-35 and *China Rights Forum* (Spring 1997): 10-13.

⁴⁸ Nicholas R. Lardy, *op. cit.*, 102.

⁴⁹ U.S. Department of State, *Human Rights Report, China*, February 1995, 1.

⁵⁰ Laura D'Andrea Tyson, "Beyond MFN", *Asian Wall Street Journal*, May 29, 1997, 6.

CHAPTER 9

U.S. FOREIGN POLICY CONVERGENCES WITH CHINA

Our Policy will seek to facilitate a peaceful evolution of China
from communism to democracy....¹

Warren Christopher

Introduction

In the relations between China and the United States, the salience of the context of Augmented Market Liberalism (AML) rests on the use of some structured and arrangements² of the world economy as tools of American foreign policy to bring about change within China. The more China becomes internationalised, the more easily it could be transformed by American foreign policy - to market economy.³ In addition, the United States is the organiser and the architect of the chessboard for the

international players of whom China is just one. This was so, whether in the Cold-War period or in the Post-Cold War era.⁴

Relations between the United States and China are complicated. Neither using the power-centric model nor the institutional framework model is sufficient for understanding their unique relationship⁵, especially during the Post-Cold War era. The instruments of U.S. containment policy during the Cold War are not adequate enough to depict the whole picture of their foreign relations, particularly now when China is becoming more open and active in the international fora. As China becomes more economically developed, the function of the IPE enlarges our analysis to include the economic aspects of their relationship. The shift from a containment policy to economic pacification enables us to re-examine the usefulness of those long-established regimes (international organizations and economic institutions) in analysing contemporary Sino-American relations.⁶

This chapter attempts to highlight some of the implications which derive from the above. The internationalisation of China has, at least, three implications.

1. A large socialist developing country has a chance of being involved in the structured world economic organizations which were predominantly organised by the capitalist states.
2. From the viewpoint of international economy, the involvement of China in global economic organizations paves the way for the United States to monitor China's trade pattern within the structured world economy.

3. The claim to the status of a developing country has been affected as China becomes more economically developed and participates more actively in world economy.

These three implications will be discussed as follows. They are important in the sense that not only the historical understandings of power relations between nations needs to be re-evaluated, but also the ingredients that underlie the concept of the “rise of China” demand re-interpretation.

Implication of China's Involvement in the World Economy

The first implication is that a “large, underdeveloped, closed”⁷ and socialist country like China has a chance to be involved in the world economy. This is intertwined with the change in the whole environment and the argument of a theoretical change in international relations that underpin the foreign policies of the United States. This argument will be illustrated by analysing the explanation given by the realists of the changing pattern of Sino-U.S. relations taking into account the variations of American foreign policy as well as the shape of the structured world economy. This perspective is generated by the assumption of the realist school on the one hand, and the empirical findings of Chinese compliance with the legal norms required by the United States on the other. Among the realist thinkers, Hans J. Morgenthau was one of the most renowned. His six principles of political realism⁸ dominated the whole tone of U.S. foreign policy after Second World

War. His realist approach derived from a mass of historical evidence and observations, enables us to grasp the underlying relations among nations. Nevertheless, the applicability of the pure realist approach in the relations between China and the United States is far from satisfying.

Although I am not able, nor even capable, to criticise the whole school of realism, nevertheless, it seems that the theory is insufficient for analysing the relations between China and the United States. Recent developments between these two countries suggest that the fifth principle of the realist school that “political realism refuses to identify the moral aspirations of a particular nation with the moral laws that govern the universe”⁹ is gravely challenged by their negotiation in the areas of trade in general and intellectual property rights in particular.

As far as trade issues are concerned, China has been waiting for re-entry into the General Agreement on Tariffs and Trade (GATT) since 1986.¹⁰ If China were a GATT member, it would have to abide by the rules of the game. That is to say that the international moral principle of trade issues should be observed by those countries which are involved in the international economy. On January 1, 1995, GATT was replaced by World Trade Organization (WTO), which is to be more powerful in legal enforcement and trade negotiation. Furthermore, with reference to the intellectual property rights agreement reached on February 26, 1995, China has to “take immediate steps to address rampant piracy throughout China

and to make long-term changes to ensure effective enforcement of intellectual property rights".¹¹ Then, if China can be forced to observe the law and act accordingly, the final outcome, to a certain extent, would be a concrete repudiation of Morgenthau's theory, at least the fifth principle.¹²

From this perspective, the real situation between the United States and China is far more complex than appreciated by a solely power-centric model. Instead, following the perspective of a United States constructed world economy, the particular relations between China and the United States are alterable as long as the world economy provides an arena of change. If the realist school sets an absolute standard for measuring the interactions among nations, the neo-realist thinker allows a little more room for widening our scope by taking into account social setting that shapes the world at large. This idea has been clearly depicted by Kenneth N. Waltz, who has argued that "Man is born and in his natural condition remains neither good nor bad. It is society that is the degrading force in men's lives...."¹³ If society can modify the state of nature of human beings, by the same token, a great constitution of people, the state, is alterable when the international economy and environment change. Thus, China's modernisation and developmental process are greatly and positively associated with the policies of the United States. But the consequent results and the necessary changes in legal systems, laws of property rights, market openness, relaxation of regulations and so on should be taken into

consideration if we want to understand how China is being modified and transformed by the United States' foreign policy under the framework of Augmented Market Liberalism (AML).

The entry of China into the world economy matches George Modelski's idea of foreign policy: "the system of activities evolved by communities for changing the behaviour of other states and for adjusting their own activities to the international environment".¹⁴ Since the world economy is structured by the web of United States foreign policy, it necessarily affects the development of Chinese foreign policy.

To analyse the behaviour of nations according to the power-centric model is relatively easier than by using a normative concept such as cooperation. If Sino-U.S. relations are changing from a pure power-centric model, defined as the unitary exercising of power from the U.S., to a new model,¹⁵ does it necessarily mean that they are tending to be more cooperative in the future? To cooperate means many things. What kind of cooperation do they want? To what extent can the two countries cooperate? If the two countries cooperate, what are the implications for other countries? First, cooperation should imply mutual benefits as well as recognitions.¹⁶ For instance, China's abiding by the rules set by the United States should not be detrimental to the fundamental interests of China. On the contrary, the acceptance of the rules may result in the realisation of its other foreign objectives. As Robert Keohane put it, intergovernmental cooperation "takes

place when the policies actually followed by one government are regarded by its partners as facilitating realization of their own objectives, as the result of a process of policy coordination.”¹⁷ In other words, observance of international standards in terms of property rights and trade agreements may help China realise its objectives of economic development and modernisation. Nevertheless, any further cooperation between them would require opening of the United States market and the relaxation of trade barriers in China, as well as a peaceful settlement of their disputes. If conflicts are embedded in the relations between the two countries, the task of cooperation lies in the establishment of an institution to prevent the possible escalation of conflict. Now, we will examine the second implication of why it is necessary for the United States to monitor China in the World economy.

Implication of U.S. Monitoring China in World Economy

In general, the reapproachment of China with the United States’ and its nest of world policy constructions can be divided into the following. First, the post-Second World War economy saw an American dominated international economic environment which was initiated by the establishment of a U.S. international economy.¹⁸ Second, this milieu conditioned the reach of American foreign policy, without much

obstruction from the rest of the world. Third, building from this foundation of a self-established super power, the United States' foreign policy changed in accordance with its perception of change in the socialist movement. In other words, the economic burden shifted to other countries which demanded American dollars in the hope of re-development and a favourable Gold Standard monetary system. The less the restriction on economic matters, the more the room for more persistence of foreign policies. Fourth, the collapse of the monetary system paved the way for a change in U.S. foreign policy. In 1971, the "coincidence" of the formal breakdown of the Bretton Woods system and the secret visit of Security Adviser Henry Kissinger to China, followed by a formal visit by President Nixon in 1972, reinforces my argument that a change in the international monetary system prompted the United States to alter its foreign policy towards China. The containment policy was precipitately abandoned, and the U.S. policy shifted to establishing a less hostile and more cooperative relationship with China. Finally, the open door policy adopted by China in 1978¹⁹ and its deepening involvement in the world economy highlighted the success of the United States' foreign policies objective: to change China.

In other words, the international arena was awash with the elements that contributed to the construction of the Cold War. But, here it will be argued that if the United States was not so wealthy and had not so dominated the international monetary system, it would not have been so

easy for other countries to lean to one side in the support of the United States' containment policy.²⁰ On the contrary, when the Bretton Woods system collapsed on August 15, 1971, although somewhat reluctantly, the United States²¹ accepted the change in the international arena regarding the Cold War as well as the dominance of American foreign policy. Nixon's dramatic visit to China in February 1972 provides strong evidence in support of the argument that posits a relationship between economic power and foreign policy orientation.

Unfortunately, transformation of China from a backward country to a relatively modernised one created dilemmas. These were not because of the absolute decline of power of the United States, but because of its relative decline. The United States, in a sense, now has to talk to and make compromises with other countries sometimes in an unsatisfactory manner because of the weakening of its power as a hegemon. Since a hegemony tries to maintain stability in the world economy through its swinging power of bestowing punishment and giving rewards,²² the emerging power of China could (from the viewpoint of the United States) challenge its hegemonic status.²³ For example, many are sceptical that a "Greater China", which combines Hong Kong, Taiwan and Macao with China, will surpass the United States and Japan in the early part of the year 2000.²⁴ In terms of countries with a trade surplus with the U.S., China ranks second, after Japan

- its trade surplus with the United States is \$29,494 million.²⁵ These alarming facts affect United States foreign policy towards China.²⁶

If the United States tries to accommodate China in a way in which it continues to have monitoring power over it, and is able to ensure that the stability of the world economy will not be disturbed by the sudden emergence of China, its foreign policy and strategy have to be changed. In other words, it must resolve the dilemma without affecting neither its own national interest nor the stability of the world economy. The mid-1994 delinking of human rights issues from the most favoured nation (MFN) status is evidence of this approach.²⁷ The subsequent negotiation and talks between the trade representatives of the two countries in February and March 1995 were evidence of the success in pursuing a consciously formulated economic strategy.²⁸ Progress was made when China agreed to comply with the law made by the United States and agreed to abide by the agreement and deal with the violation of intellectual property rights.²⁹ The idea that economic issues should be delinked from human rights and that the United States should concentrate on finding a feasible solution to economic and trade issues to change China, comes very close to Goldstein and Keohane's recent work *Ideas and Foreign Policy*.³⁰ As long as ideas become the "beliefs held by individuals",³¹ the "political outcomes, particularly those related to foreign policy"³² can be realised through an appropriate foreign policy strategy. Furthermore, if one idea is pursued and can be realised

through a foreign policy objective, it would be possible to spread this idea to many other areas, and lower level commercial cooperation to higher level cooperation. The following quote from an eitorial comment entitled "Ideas Follow Trade" in the *International Herald Tribune* spells out this "idea" precisely.

But if the idea of orderly law enforcement takes hold in purely commercial areas - such as curbing theft of copyrighted movies, music and computer programs - it may spread. It may begin to affect Chinese attitudes in two other subjects of great importance to the rest of the world, arms control and human rights.³³

In the following section, the third implication of China's Third World role in the international arena will be discussed.

Implication of China's Third World Role in the World Economy

Dr Harry Harding, in a 1995 satellite interview with participants from Hong Kong, Taiwan, Seoul, Tokyo and Singapore, commented that "China is not a developing country, neither is she a developed one."³⁴ The basic question of what China is remains unanswered. The implications of China's Third World role are important. A clear-cut Third World identity for China would ease many problems relating to trade negotiations with the rest of the world on the one hand and between China and other Third World countries-

-conflicting in scrambling for world resources or cooperating in creating a New International Economic Order (NIEO) - on the other.

The following section illustrates the perceptions of decisionmakers of China's Third World role. It then goes on to demonstrate that the position of the Third World status is in fact an ambiguous issue. Consequently, China's membership in the Group of 77, its capture of international loans, and even the applicability of a new measurement of development, Purchasing Power Parity (PPP), become bones of contention between China and other Third World countries. Let us first go back to 1954.

a.) Decisionmakers' Perceptions of China's Third World Status

In 1954, Chinese Premier Zhou Enlai was the first to introduce the objective of making the Five Principles of Peaceful Coexistence the basis for future foreign policy negotiations.³⁵ The Bandung Conference held in Indonesia in 1955 paved the way for China to present its envisaged Third World role in that forum. Although there were differences among the participating countries on China's claim to Third World status,³⁶ the category of being a Third World country was still valid at that time. The Third World role of China was also carefully delineated in Mao Zedong's theory of three worlds (San fen shi jei lun).³⁷

Mao's theory derived from his perception of the world economy.³⁸ To him, First World countries were the United States and the Soviet Union; the Second World included Japan, Canada, the United Kingdom and European countries; and the Third World included Asian and Latin American countries and China.³⁹ Since all Third World countries were being exploited by the imperialism and hegemonism of the First World, they should come together so as to prevent further oppression by the First World. Besides, he thought the Second World, when pressured by the First World, could be encouraged to join the Third World to struggle against the First World in the long run.⁴⁰ Mao's theory was a mirror image of his long-held strategy of world revolution. The major objective was to create a united front of countries feeling exploited, to attack the First World.⁴¹

However, Mao's theory was not feasible. First, his definition of the Third World was solely based on ideology, without taking note of the realistic economic nature of each country. Second, the self-fulfilling concept of three worlds clashed with the individual self-interest of countries in their economic development instead of ideological confrontation. This was particularly true of the developing countries of Asia. Finally, the theory suffered a serious setback when Mao died in September 9, 1976. The leader of the generation, Deng Xiaoping, placed more emphasis on economic development than on continuous ideological struggle.

Deng emphasized economic development, North-South relations and even South-South cooperation. According to him, “resolving this [North-South] problem should rely on North-South dialogue, I advocate North-South dialogue.”⁴² Contrary to Mao’s logic, Deng’s open-door policy resulted in China’s attraction of First World and Second World countries rather than counteracting them. With regard to economic development and standard of living, China benefitted rather than suffered from dealing with the First World – for instance, in its 1986 re-application to GATT and in talks with the United States over MFN issues and violation of intellectual property rights. Mao’s three-worlds theory formally broke down at United Nations’ Forty-third Conference on September 20, 1988, when Chinese Foreign Minister Qian Qichen announced openly that “the world was going towards multi-polarization.”⁴³ In fact, multipolarity of the world economy and the perception of the Chinese government of its role in the world contradicted China’s self-proclaimed status as a Third World country.

To conclude this discussion of decisionmakers’ perspectives of China’s Third World status, we should pay very close attention to Premier Li Peng’s speech at the United Nations on January 31, 1992. Li Peng made an unmistakable distinction between China and the Third World: “the developing countries whose population constitutes the overwhelming majority of the world’s total are finding *themselves* in an increasingly difficult position (emphasis added).”⁴⁴ The use of *themselves* and not ourselves

(whether a Freudian slip or not) qualifies as clustering Third World countries on the one hand, and China on the other. In a word, the decision maker's self-portrait position of China as neither developed nor developing is emerging upon the arena of world politics.

b.) Bones of Contention with The Third World

China's future relations with the Third World will be strained, if not confrontational, especially on the following issues.

First, China is not a member of Group of 77.⁴⁵ The establishment of Group of 77 (after the 1964 United Nations Conference on Trade and Development at Geneva, UNCTAD) constituted the biggest movement of developing countries hoping to create a new world order with an international economy more favourable to them. However, China's absence from this vital group means the loss of a forum for concrete cooperation and dialogue with the Third World.

Second, as long as China is moving towards economic prosperity, the conflicts with the Third World are substantial. According to Samuel Kim, "By 1989 China had become the world's largest recipient of official development assistance from all sources (\$2,153 million)."⁴⁶ Again, the State Administration of Foreign Exchange Control (SAFE) announced that China's outstanding debt at the end of 1993 was US \$83.5 billion.⁴⁷ According to an official OECD publication, China's considerable debt

created no problem at all because “its [her] solid economic performance should prevent its [her] from facing solvency or liquidity problems.”⁴⁸ In terms of international lending and financing, China’s image of loan-snatching becomes an area of dispute with developing countries rather than an opportunity for cohesion. Despite Deng’s advocacy of South-South economic cooperation, the fact that China is the largest debtor among developing countries makes China’s future policies with them uneasy.

Finally, the fundamental question of whether China is a Third World nation or not is challenged when Purchasing Power Parity (PPP)⁴⁹ is applied, instead of the traditional GDP per capita, to measure the standard of living in China. For example, China’s GDP per capita in March 1995 was \$435 (using traditional GDP calculations), but using PPP pushes the figures up to \$2,428.⁵⁰ That’s a colossal increase of 550 percent! Although it should be argued that the application of PPP is, sometimes, exaggerated as in the case of many developing countries,⁵¹ continuing research on finding a parity rate of exchange and on refining the techniques in measuring exchange rate and inflation would result in a more precise estimation of living standards in developing countries, particularly China.⁵² In other words, the increasing internationalization of China and opening of its economy would make the PPP a more precise and appropriate unit of measurement.

At this level, China’s Third World status and its foreign policy are still covered by a veil of ambiguity. One might conclude by saying that

“Beijing no longer asserted that the Chinese model of economic development or political organization were necessarily appropriate for developing states, but maintained that pragmatic mutually beneficial economic relations were the central hallmark of Chinese-Developing World relations.”⁵³ In addition, coupled with the above arguments, China’s Third World relations and policies towards “other Third World nations” served a functional role in the early years, for Mao an ideological function and for Deng a developmental function. However, as time goes by, when China can handle the issue more smoothly, whether it is the Third World as a cluster or its identity as a Third World country, policies towards the Third World will become expandable. That is why the incorporation of China into the world economy and the function of the United States’ foreign policy towards China become important: to analyze its developmental trends as well as monitor China according to standards of the world economy.

Conclusion

It has been argued that the United States and China’s foreign relations are not static as in the Cold War era. Nor have they become hostile if we look at their trade and continuous negotiations. The post-Cold War era required a functional change of the long-established economic institutions in

accordance with China's internationalisation process and economic development. Sino-U.S. relations reveal that in theory and in reality, the international political economy (IPE) is being subordinated to the U.S.' China foreign policy. The phenomenon in the international society is the result of the interaction among different countries, whether socialists or capitalists. A farewell to the Cold War does not mean that we should neglect the power relations among nations. In fact, re-examining the pure power concepts is needed to understand U.S.-China relations. The internationalization of socialist China into the world economy, monitoring China's compliance with the international rules and China's Third World role are creating new implications for U.S-China relations in the future. In the following section, the transformation process of AML will be substantiated accordingly.

NOTES

¹ This is one of the statements made by Warren Christopher, Secretary of State-Designate of the United States during his confirmation hearings on 13 January 1993. See William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York and London: W. W. Norton & Company, 1993): 365.

² A structured world economy refers to the world organizations, especially the General Agreement on Tariffs and Trade (GATT) or World Trade Organization (WTO), International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) or World Bank, that were established under the auspices of the United States.

³ Actually, the idea of transformation is premature if we look at some of the comments on Clinton's new policy towards China. David Zweig has argued that "Yet, if the United States does not press the Chinese to adopt democratic institutions for China's own benefit, China will continue its cycle of liberalizations and crackdowns, which alienate the population and undermine economic growth." See David Zweig, "Clinton and China: Creating a Policy Agenda that Works", *Current History* 92, no. 575 (September 1993): 246.

⁴ The contending theories of the hegemonic power of the United States is still being debated between Joseph S. Nye and Paul Kennedy. Nevertheless, the reality is that Chinese internationalisation and its involvement in the world economy clearly moved it to the structured regimes which were initiated by the United States after Second World War. See Joseph S. Nye, Jr., *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990) and Paul Kennedy, *The Rise and Fall of The Great Powers: Economic Change and Military Conflict from 1500 to 2000* (London: Fontana Press, 1989).

⁵ With reference to the subject matter of international political economy (IPE), Susan Strange is more inclined to define it as "... social, political and economic arrangements" that derive from "...man-made institutions and sets of self-set rules and customs." See Susan Strange, *States and Markets*, 2nd ed., (London: Pinter Publishers, 1994): 18. While Robert Keohane is more concerned with power relations, he has defined the IPE as "the intersection of the substantive area studied by economics— production and exchange of marketable means of want satisfaction—with the process by which power is exercised that is central to politics". See Robert O. Keohane, *After*

Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1984): 21.

⁶ Here, I emphasise formal institutional matters, a little bit more although regimes might refer to institutional things or non-institutional matters. Nevertheless, they all converged on the “cooperative behaviour” and opportunity of cooperative behaviour between the United States and China. Moreover, the “structure” and “scope” of those regimes play a transformatory role allowing China to participate easily or not in those organisations. See Stephan Haggard and Beth A. Simmons, “Theories of International Regimes” *International Organization* 41, no. 3 (Summer 1987): 495-97.

⁷ These categorisations are provided by James N. Rosenau. See James N. Rosenau, “Pre-Theories and Theories of Foreign Policy” in John A. Vasquez, ed *Classics of International Relations*, 2nd edn., (New Jersey: Prentice Hall, 1990): 168.

⁸ The six principles are as follows:

1. Political realism believes that politics, like society in general, is governed by objective laws that have their roots in human nature.
2. The main signpost that helps political realism to find its way through the landscape of international politics is the concept of interest defined in terms of power.
3. Realism assumes that its key concept of interest defined as power is an objective category which is universally valid, but it does not endow that concept with a meaning that is fixed once and for all.
4. Political realism is aware of the moral significance of political action.
5. Political realism refuses to identify the moral aspirations of a particular nation with the moral laws that govern the universe.
6. The difference, then, between political realism and other schools of thought is real, and it is profound.

These principles are contained in Morgenthau’s book. See Hans J. Morgenthau, *Politics Among Nations: the Struggle for Power and Peace* (brief ed. rev. Kenneth W. Thompson) (New York: McGraw-Hill, Inc., 1993): 4-16.

⁹ *ibid.*, 13.

¹⁰ China joined the International Monetary Fund (IMF) and the World Bank in 1980, and began to apply for a full member in GATT in 1986. See Harold K. Jacobson and Michel Oksenberg, *China’s Participation in the IMF, the*

World Bank, and GATT: Toward a Global Economic Order (Ann Arbor: the University of Michigan Press, 1990).

¹¹ United States Information Services, *News Release*, 2 March 1995, 2.

¹² After four hours of continuous negotiations between the United States trade representative Mickey Kantor and his Chinese counterparts, further movement towards admission to the WTO was ensured provided China followed a “flexible, pragmatic and realistic basis”. See *South China Morning Post* (Hong Kong), 13 Mar 1995, 1.

¹³ Kenneth N. Waltz, *Man, the State & War: A Theoretical Analysis* (New York: Columbia University Press, 1959): 4-5.

¹⁴ Mahendra Kumar, *Theoretical Aspects of International Politics*, 3rd. edn., (Agra: Shiva Lal Agarwala & Company, 1975): 310.

¹⁵ Harry Harding, *A Fragile Relationship: The United States and China Since 1972* (Washington, D.C.: Brookings Institution, 1992). Besides, he also mentioned in an interview that the new United States and China relations are “neither friend nor enemy”. A more “realistic and mature relations should be established between them”. See *Hong Kong Economic Journal Monthly* 17, no. 9 (December 1993): 12-17.

¹⁶ Mutual recognition is like reciprocity. If country A protects its goods, B would do in the same manner, and vice versa. See Joshua S. Goldstein, *International Relations* (New York: HarperCollins College Publishers, 1994): 335-37.

¹⁷ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (New Jersey: Princeton University Press, 1984): 51-52.

¹⁸ Susan Strange, “The Future of the American Empire” in Richard Little and Michael Smith, eds., *Perspectives on World Politics*, 2nd. edn., (London: Routledge, 1991): 434-43.

¹⁹ The open door policy adopted after the Third Plenum of the Eleventh Party Congress in 1978 paved the way for China and its citizens to experience the fresh air in the world economy, having the opportunity to look back and strive for the future.

²⁰ The United States’ monetary power was securely established after the meeting of those major powers at Bretton Woods, New Hampshire in July

1944. The aim was to formulate a monetary system which could ease the forthcoming monetary problems confronting different countries. To put it simply, the US was a guarantor who was responsible for the conversion of U.S. \$35 to one ounce of gold if the demand arose. Since there was one and only one country—the United States—which was sufficiently credible to be the linchpin, the US dollar became the golden child between the fifties and the early sixties. The US foreign policy was strongly related to its creditworthiness at that time. See Joan Edelman Spero, *The Politics of International Economic Relations*, 4th. ed., (London: St. Martin's Press, Inc., 1990): 31-48.

²¹ Directly quoted from Robert Gilpin. He said "The American government was under pressure to convert tens of billions of dollars into gold, and the international monetary system was threaten to break down." See Robert Gilpin, *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987): 140. For more details, especially the technical terms and the subtle elements of Bretton Woods System, see John S. Hodgson and Mark G. Herander, *International Economic Relations* (New Jersey: Prentice-Hall, Inc., 1983): 381-96.

²² Robert Gilpin, *ibid.*, 75.

²³ Susan Strange, *op. cit.*, 56-57.

²⁴ *Newsweek* 121, no. 7, 15 February 1993, 12-13.

²⁵ *News Release*, (United States Information Service), 21 February 1995, 3.

²⁶ Apart from the astonishing book written by William H. Overholt, *The Rise of China: How Economic Reform is Creating a New Superpower* (New York and London: W. W. Norton, 1993) there are many recent books dealing with the same topic—the rise of China. They are Maurice Brosseau and Lo Chi Kin, eds., *China Review 1994* (Hong Kong: The Chinese University Press, 1994), Denis Dwyer, *China: The Next Decades* (London: Longman Scientific & Technical, 1994) and Susumu Yabuki, *China's New Political Economy: The Giant Awakes* (trs. Stephan M. Harner) (Boulder: Westview Press, 1995).

²⁷ *Hong Kong Economic Journal*, May 24, 1994, 30. and May 27, 1994, 6. and *Ming Pao* (Hong Kong), March 28, 1994, A11.

²⁸ *International Herald Tribune*, March 1, 1995, 6.

²⁹ United States Information Services, *News Release*, March 2, 1995, 2-5. and *South China Morning Post* (Hong Kong), March 13, 1995, 1.

³⁰ Judith Goldstein and Robert O. Keohane, eds., *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca and London: Cornell University Press, 1993).

³¹ *ibid.*, 3.

³² *ibid.*

³³ *International Herald Tribune*, March 16, 1995, 6.

³⁴ The satellite interview took place in Washington D. C. I was one of the participants from Hong Kong in Hong Kong watching the one hour broadcast at the American Embassy.

³⁵ Zhou announced this at the First National People's Congress. The five principles are: (a) mutual respect for sovereignty and territorial integrity, (b) mutual nonaggression, (c) noninterference in each other's internal affairs, (d) equality and mutual benefit, and (e) peaceful coexistence.

³⁶ Lillian Craig Harris and Robert L. Worden, eds., *China and The Third World: Champion or Challenger?* (Dover: Auburna Hour Publishing Company, 1986): 2-3.

³⁷ Kwok-sing Li (Comp.), *A Glossary of Political Terms of The People's Republic of China*, trans. Mary Lok, (Hong Kong: The Chinese University Press, 1995): 363.

³⁸ Mao's three worlds theory was first introduced in a meeting with Zambia's president on February 22, 1994. See Kwok-sing Li, *ibid.*, 363.

³⁹ Kwok-sing Li, *ibid.*, 363 and also see *40 Years of Chinese Communist Party Rule* (Beijing: Chinese Communist Party Data Publishing House, August 1989): 375.

⁴⁰ John W. Garver, *Foreign Relations of the People's Republic of China* (New Jersey: Prentice Hall, 1993): 166-67.

⁴¹ *A Great Dictionary Concerning Mao zedong* (Guangxi: Guangxi renmin chubanshe, 1992): 1017-18.

⁴² *Deng Xiaoping Wenxuan, Vol. 3* (Beijing: Renmin chubanshe, 1993): 56.

⁴³ See Kwok-sing Li, op. cit., 364; *Xinhua News Agency Bulletin*, September 22, and October 7, 1988.

⁴⁴ Li Peng, "Chinese Views on a New World Order", *Beijing Review* 35, no. 7, Feb 17, 1992, 8.

⁴⁵ Robert E. Riggs and Jack C. Plano, *The United Nations: International Organization and World Politics*, 2nd ed., (Belmont: Wadsworth Publishing Company, 1994): 62.

⁴⁶ Samuel S. Kim, ed., *China and the World: Chinese Foreign Relations in the Post-Cold War Era* (Boulder: Westview Press, 1994): 154.

⁴⁷ *China Economic Digest*, (Hanli Consultancy Ltd., London), Autumn Issue, 1994, 15.

⁴⁸ There are three countries: China, Indonesia and Malaysia. See *The OECD Observer*, no.184 (October/November, 1993): 14.

⁴⁹ The Purchasing Power Parity (PPP) theory is defined as "A theory which states that the exchange rate between one currency and another is an equilibrium when their domestic purchasing powers at that rate of exchange are equivalent" See G. Bannock, R. E. Baxter and R. Rees, *The Penguin Dictionary of Economics*, 3rd ed., (London: Penguin Books, 1984): 362.

⁵⁰ *Asiaweek* 21, no. 12, March 24, 1995, 53.

⁵¹ For example, India's GDP per capita was \$310, and Bangladesh's was \$220. The application of PPP leads to an increase of \$1,126 and \$1,290, respectively. See *ibid.* Paul A. Samuelson in his famous textbook *Economics* has argued in a similar way that the PPP technique for measuring living standards in developing countries results in a big differences from the traditional market measurement. See Paul A. Samuelson and William D. Nordhaus, *Economics*, 15ed., (New York: McGraw-Hill, Inc., 1995): 671.

⁵² This is a very important definition, both politically and economically. In terms of politics, if China carries on its Third World status, it would easily receive trade concessions and special treatment from its trading counterparts, like other developing countries. Else, it would become a shield of protection against the rough sea of international trade activities, similar to "infant-industry" excuse using by many Newly Industrialized Countries (NICs) in

the seventies. Economically, the search for a scientific and impartial definition helps in finding a good scale for estimating standard of living across national boundaries.

⁵³ Daniel S. Papp, *Contemporary International Relations: Frameworks for Understanding*, 4th. ed., (New York: Macmillian, 1994): 365.

PART FIVE: CONCLUSION

CHAPTER 10

THE MARKET FORCE AND CHINA'S TRANSFORMATION

Although there are various disputes, problems and differences between China and the United States, relations between the two countries must eventually be improved.¹

Deng Xiaoping

This study reinterprets Sino-American relations throughout the Cold War and the post-Cold War era by dissecting the facilitation of market force. The augmentation of market liberalism (AML) as the U.S. foreign policy toward China is a cornerstone of their relations; China's market economy was induced partly by U.S. foreign policy. This study enables us not only to look at their bilateral foreign policy from the traditional angle of diplomacy but also enlarges the perspective to the macro structure under the facilitation of international political economy.

AML's Engendering Forces of Change

Military expansion and economic development coexisted in the world after the Second World War. NATO, the Truman Doctrine, the Korean War and the Vietnam War were products of the Cold War. Nevertheless, international economic relations facilitated the establishment of the GATT, IMF, World Bank and numerous international organizations at the same time. Those international organizations were not the byproducts of containment; instead they were important pillars resulting from U.S. efforts to build economic development and cooperation among countries. U.S. foreign policy initiatives had the market force as an important variable. U.S. foreign policy toward China, engendered under those international circumstances, created a momentum for change.

The encroachment of Japan by U.S. foreign policy after the Second World War nurtured an international environment conducive to the market economy. The encroachment of Japan's economic as well as political structure enabled the U.S. to safeguard capitalism from socialism. By the same token, the embankment of the Four Little Dragons with AML demonstrated the effectiveness and efficiency using the market force to transform countries. This process coincided with Alfred D. Chandler's argument of changing societies through the market force. The Four Little Dragons' ties with the United States rejuvenated their economies and led to them gradually joining the world economy through trade and investment.

The U.S. policy of AML toward China was less successful in the 1950s and 1960s. On the one hand, China's domestic political atmosphere was tainted ideology of struggle and socialism which prevented Mao from looking at the market potential of Sino-American relations. On the other hand, there was the Cold War fear that encircled the world economy. Sino-American relations particularly before 1972 were also part of the strategic triangle with the Soviet Union.

The economic nature of American foreign policy toward China emerges also in an examination of Nixon's visit to China in 1972. Market force was facilitated during his visit by the downfall of the gold standard. Moreover, the market force orchestrated Nixon's visit as seen by the statistics in Chapter 6 of wheat trading before and after the visit.

If Nixon's visit was said to be the break-through of Sino-American relations, the normalization process also witnessed the substantial change in the U.S. context of power from a single hegemonic force to the use of international regimes as a tool of extending its influence. China's industrial development, economic openness, internationalization, and increase in trade after 1978 came at a time when the world had already moved toward a relatively mature and sophisticated market economy as Alexander Gerschenkron argued, "The more advanced the world economy, the greater the entry costs."² Many rules of conduct had been installed by international regimes such as GATT, the World Bank and IMF. For China to fit into this

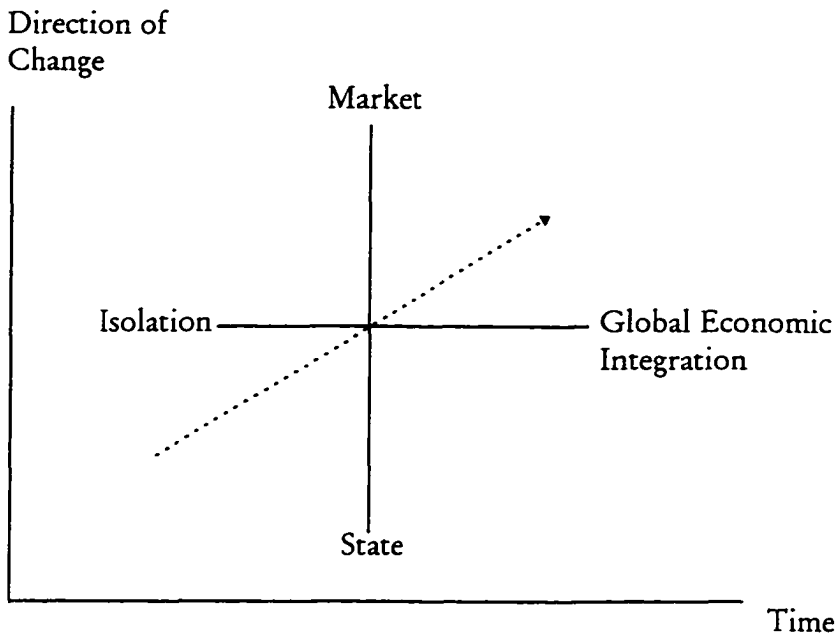
structure required a big adjustment in its domestic, economic and political policies. The guiding principle of the international regime, therefore, not only affected China's policy but also inherited the facilitation of the U.S. interests because support of free trade and political liberalization became America's "conviction."³

The post-Cold War U.S. policy toward China was engagement and enlargement. There were both policy divergences and policy convergences. Intellectual property rights (IPR), Taiwan and MFN status became areas of disagreement. Policy converged China's involvement in the world economy, the U.S. monitoring of China in the world economy and China's role in the Third World were instances where policy converged. For the future, China's policy is oriented toward the market economy.

China's Development Trajectory and Policy Orientation

China's development was fundamentally molded by the market force. It resembles the path depicted in Figure 10.1.

Figure 10.1 China's Path of Economic Development



As time went on, the movement toward economic development and market openness became distinctive. The following sections will put forward my argument that the market force has a fundamental effect of change in China's empirical context.

Fundamental Changes

The Communist Party added the market ingredient to China's Constitution, which became an inherent part of future Chinese policymaking. The constitutional amendments were made at the First Session of the Eighth National People's Congress on March 29, 1993. Perhaps, the most important was the statement "The state practices socialist

market economy,” which was added to Article 7.⁴ Subsequently, in October 1993, political theorists of the China’s government including Ma Hung published *What is Socialist Market Economy*. The book served as a guiding principle and a formal testament to China’s pursuit of a market economy.⁵ As analyzed in Chapter 8, the Chinese effort to join the World Trade Organization (WTO) entailed a fundamental adaptation to market and attention to the entrepreneurial system, the legal system and the change of the context of economic planning.⁶ We shall study these changes in turn.

a.) Entrepreneurial System

Although the existence of state-run industries symbolizes China’s communism and socialism, these industries have long been inefficient and ineffective. At the Fifth Session of the Eighth National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC) in February 1997, delegates called for “a quick structural readjustment of China’s manufacturing industry.”⁷ Jiang Zemin also promised “to strengthen management of the market and establish a better market framework.”⁸ This reform in Shanghai for example will leave 290,000 workers unemployed, complained Xu Kuangdi, Shanghai Mayor, although it is in line with Shanghai’s plan to upgrade its industries and become an international financial center.⁹ The move indicates that the forthcoming Chinese economy will consider market competition as the most important ingredient.

Actually, the reform of the state industries witnessed the movement toward the adaptation to market economy. Some Chinese state industries went public in the Hong Kong stock exchange market under the categories of Shanghai A and B and Shenzhen A and B. Chinese stocks even outperformed other Asian stocks recently. For example, Shanghai A and B and Shenzhen A and B ranked as the highest four indices in the Pacific Rim, having returns from 60.74 percent to 23.54 percent.¹⁰

b.) The Market System

After the 1978 reform, the Chinese economy was overhauled. Development based on production and consumption swiftly energized nearly every sector of the country. China witnessed two major booms in her consumption demand, in 1985-86 and 1987-88.¹¹ With the rise in income levels, there was a steady drop in the purchase of foodstuffs and an increase in the consumption of durable goods and services such as washing machines, refrigerators, color televisions and sewing machines.¹² However, since the Chinese economy is still governed by the macro adjustments of the state, the price levels do not necessarily reflect the genuine market price. For example, the inflation rate and the consumer price rate might not truly reflect the consumption level.¹³ Only when deregulation and privatization of state enterprises is fully implemented can genuine consumption levels be measured accurately.

c.) The Legal System: Taxation Reform

Major tax reform was introduced along with market socialism at the Third Plenum of the Fourteenth National Congress from November 11-14, 1993. The focus of this meeting was the “Decision of Some Issues Concerning the Establishment of a Socialist Market Economy”.¹⁴ A *Communiqué* of ten chapters was issued immediately after the meeting. It can be categorized into three aspects: 1. development of a better market structure; 2. acceleration of macro-economic control; and 3. reformation of state-enterprises.¹⁵ Among others, reformation of taxation was one of the major topics.

The whole concept behind the tax reform was summarized by Liu Zhongli, Minister of Finance:

The financial and taxation reform to be launched next year [January 1, 1994] is an important component of the establishment of a social market economic structure and a major measure vital to the country's long-term stability and order and future economic development, as well as reform of the economic structure as a whole.¹⁶

The reform *per se* is meant to generate a substantial increase in central government revenue in the coming fiscal year. The new tax system also redefines the income distribution and power structure between the central and local governments. Finally, it propels China's internationalization and effort to catch up with world standards, because the concept behind it is borrowed from many advanced countries.¹⁷ Such change will inevitably

affect China's chance of entering the World Trade Organization (detailed in Chapter 8).

d.) Conceptual Change of Economic Planning

Planning is said to be a rational way of distributing a country's resources. In theory, it should be achievable and realistic. It has been a macro guiding principle for Chinese economic development since the first Five-Year Plan (1953-1957). The first plan was supposed to adapt China to the system of the then-Soviet Union, but it was not wholeheartedly adopted by the Chinese. The second Five Year Plan (1958-1962) and the third Five Year Plan (1966-1970) were not implemented due to the chaos of the Great Leap Forward and the Cultural Revolution. Moreover, the objectives of the plans fell short because their socialist idealistic nature clashed with political power struggles happening in China.

After the Cold War, the eighth Five Year Plan (1991-1995) targeted economic development. In terms of sectoral growth, income distribution, control of the budget and other social aspects, the Plan clearly pointed toward market openness.¹⁸ The major breakthrough came with the Ninth Five Year Plan (1996-2000), which outlines the structural transformation of a centrally-planned economy into a market-oriented one.¹⁹ Under this plan, "the enactment of a comprehensive and enforceable set of commercial laws and the growing size of the non-state sector should help define a more

conducive business environment. All these would add vigour to the Chinese economy and help to maintain its future growth momentum.”²⁰

Prospects of China's Market Economy and U.S. Foreign Relations

a.) Endogenous Changes of Consumption Pattern

In the light of market forces, the exploration of how the consumption market affects the way of life of the people in the Southern part of China and those cities regarded as Special Economic Zones (SEZs) hinted the directional change of the people's behavior.

The Tiananmen Incident in 1989 was a political outcry either to China or to the international community. However, the pace of marketization and the trend toward market economy in China were less affected. The 1992 Southern Tour of Deng Xiaoping, actually, shed impetus to the magnitude of market economy and openness in the Coastal areas. In theory, the tour made by Deng Xiaoping consolidated the policy toward market economy. In reality, the growth in Chinese domestic economy, for example China's total exports in 1996 reached \$151 billion,²¹ caused a major concern for the world economy in relation to the creation of a "Greater China."²² What the international society concern is the feasibility of using economic development and market openness as the major locus of policy-decision of China. In order to grasp a comprehensive survey of the entire

effect of market oriented policy of China demand the capacity beyond the requirement of this paper. Nevertheless, if we focus on the Guangdong province to see to what extent that market oriented policy in fact changes the pattern of consumption, we might properly get a prior idea of how the society is being modified.

Apparently, the trend of the households purchase of durable goods from 1989 to 1995²³ demonstrated a general trend of the gentrification of living standard of the urban households. Thus, if we look more closely into the change of the profile, the addition of new items and the structural change of the consumption pattern, more implications could be identified. First, the first fifteen items represent the core or basic necessities of measuring the living standard of urban household starting from 1989. Although the yearly change of the consumption of different items are roughly stable, some changes should be noticed. In the case of the purchase of sewing machine, a steady decrease was recorded. In 1989, 1.07 of sewing machine were purchased per 100 households (average). In 1995, only 0.18 of the sewing machine was purchased per 100 households. In terms of percentage, it shows that there was a reduction of 83 percent of the purchase of sewing machine. The reason behind this outcome is properly due to the increase of the purchase of ready-made clothing from shops instead of wearing domestic-made clothing. The market force, here, pulled the people from the self-

reliance way of living into the modern society based on day-to-day transaction and division of labour.

More interesting, starting from 1994, Black and White television was no longer a unit of measurement of the standard of living in the urban society. Neither did automatic watch nor electronic watch served as standard of measurement after 1992. The change of taste and the advancement of technology changed the living standard of the people accordingly.

After 1992, the Chinese government added many new items into the list. They included a variety of goods from furniture to electronic appliances. Apart from the increase of living standard, the widely use of electronic appliances hinted that the supply of electricity is more abundance. From the angle of social change, the use of cooker-hood and ventilator could imply that people are living in multi-story apartment, meaning that less and less people are living in houses or village.

Among the many newly added items, many were considered as information or knowledge oriented. The installation of telephone and the use of pager implied that communication and information will be reached more easily. The increase of the effectiveness and the efficiency of the flow of information affect the nurturing of market economy in China. Whether we belief that information is a tool of government or a tool against government,²⁴ the power of knowledge and information²⁵ will generate a

change based not just on the consumption pattern but also on the behaviour of individuals.

The change of the behaviour was clearly identified from the change of the consumption pattern of the people in Guangzhou. According to Guangzhou Yearbook 1996, two dramatic change of consumption were indicated. First, the monthly demand for transportation and communication increased sharply from 24.41 yuen in 1994 to 39.69 yuen in 1995 per person, an increase of 62.60 percent.²⁶ Second, the monthly demand for merchandises and services also increased from 25.26 yuen in 1994 to 40.20 yuen in 1995 per person, 59.14 percent increase.²⁷ Due to the unique situation of Guangzhou, the change of consumption pattern might outperformed many other provinces. Nevertheless, the structural change of the consumption pattern should not contradict too much with other provinces.

b.) Exogenous Change of U.S. Foreign Policy

Speaking to the Foreign Policy Association in January 1994, Jeffrey Garten, Under-Secretary of Commerce for International Trade of U.S. Commerce Department put forward the notion of promoting exports to the "big emerging markets (BEMs)."²⁸ Among ten BEMs, he identified China was the largest.²⁹ "The United States needs to give increased attention to

supporting economic reforms that raise the standard of living in the BEMs,” Garten said.³⁰

Sounds prophetic, Garten uses several chapters to further elaborate the pros and cons to the U.S. and even the world if proper attitudes and policy orientations are undermined or neglected when dealing with the BEMs. He contended that “If certain big emerging markets are already part of this Western global framework, so the argument goes, then we should work more closely with them in order to deepen cooperation.”³¹

In the post-Cold War world economy, his idea of BEMs served as a re-education to the American public about the reality and change of the world economy. Bearing the shrinking of the U.S. power in mind, Garten basically attempts to remind the American to be alert and prepared for the change and teach the American how to work with other nations in the foreseeable future.

No sooner had he said this than United States Secretary of Commerce Ron Brown led a group of 24 businesspeople to China in August 1994. They were received by Wu Yi, the Chinese Foreign Trade Minister. The trip was successful in that business contracts were eventually signed. For example, Michael Jordan and the Chinese counterparts signed 14 agreements worth US\$ 140 million.³²

On May 4, 1994, the Senate Subcommittee on East Asian and Pacific Affairs held a hearing entitled *U.S. Policy Toward China*.³³ In general, the

participants agreed upon the dismissal of a Cold War strategy toward China.³⁴ In particular, as Robert Kapp, president of the U.S.-China Small Business Council, noted:

Given the historical background I have discussed; given the immensity and the global importance of today's American encounter with China, and given the almost immeasurable challenges, dangers and opportunities that the U.S. and China must face in the future, we *must* (italics original) pursue full engagement for the long term with China.³⁵

What type of policy will maximize the U.S.' and China's mutual benefit? The U.S. imports 18 percent of all of China's exports, estimated at \$151 billion U.S. a year.³⁶ This implies that a policy based on market augmentation will help pinpoint their common interests in the years to come.

In addition, the BEMs and the U.S. foreign policy were further taken into analysis by Robert Chase, Emily Hill and Paul Kennedy in a recent article appeared in *Foreign Affairs* entitled: "Pivotal States and U.S. Strategy".³⁷ The objective of U.S. foreign policy toward these states is to "encourage integration of new security issues into a traditional, state-centered framework and lend greater clarity to the making of foreign policy."³⁸ In another occasion, when asked about the U.S. policy toward China in relation to the concept of BEMs, Jeffrey E. Garten former Undersecretary of Commerce for International Trade, affirmatively replied "I think there's

only one approach to China, and that is a policy of engagement, recognizing all the imperfections. The alternative, the so-called containment theory, to me is an insane approach.”³⁹

Finally, Deng Xiaoping, paramount leader, architect of China’s economic reform and political hard-liner, died February 19, 1997.⁴⁰ His death has different meanings to different people. For those who participated in the 1989 democracy movement, it might be a juncture for re-examining the Tiananmen Incident and admitting that it was mishandled through military repression. For those who have benefitted from economic openness, Deng’s death will certainly place economic reform in a new testing ground between progressives and hard-liners.

In terms of Sino-American relations, many variables can affect both countries’ perceptions of development and policy strategies. Hence, this study can, to a certain extent, serve as an alternative to search for the most possible points of convergence in Sino-American relations in the context of the market force. The tutelage of U.S. foreign policy and facilitation of market liberalization in China might be the first step in recruiting China to be a member of the world society.

NOTES

¹ Excerpted from a talk with United States envoy Brent Scowcroft on December 10, 1989. See Deng Xiaoping, *Selected Works of Deng Xiaoping, Vol. III, (1982-1992)* (Beijing: Foreign Languages Press, 1994): 338.

² Cited in Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics" *International Organization* 32, no. 4 (Autumn 1978): 885.

³ Susan Strange, *States and Markets*, 2nd ed., (London: Pinter Publishers, 1994): 78.

⁴ *Constitution of the People's Republic of China* (Beijing: Foreign Languages Press, 1994): 94.

⁵ Ma Hung et al, eds., *What is Socialist Market Economy* (Beijing: Chinese Development Press, 1993).

⁶ *ibid.*, 3-16.

⁷ Ivan Tang, "Calls for Action on Industry 'Plague,'" *South China Morning Post*, March 8, 1997, 6.

⁸ Agatha Ngai and Daniel Kwan, "Jiang vow to Step Up State Sector Reforms" *South China Morning Post*, March 4, 1997, 10.

⁹ Agatha Ngai, "Shanghai Loses 290,000 jobs in Industrial Shift" *South China Morning Post*, March, 6, 1997, 10.

¹⁰ *South China Morning Post*, May 12, 1997, (Business), 1.

¹¹ *Heng Seng Economic Monthly* (November 1992), 1.

¹² *ibid.*, 3.

¹³ *Asian Monetary Monitor*, (May-June 1995): 14.

¹⁴ *People's Daily*, November 15, 1993, 1; *China News Analysis* (Taipei), December 1, 1993, 4 and *Wen Wei Po* (Hong Kong), November 12, 1993. For a more detailed explanation of the new tax system in late 1993, refer to the

following three volumes: *Zhongguo gaige quenshu*, (1978-1991) (Dalian chubaishe, 1992), particularly the chapter called "Shuishou tizhi gaige juan;" Wang chuan lun & Wang ping wu (eds), *Zhongguo xinshuizhi yiwu quanshu* (Beijing: Zhongguo jingrong chubaishe, 1994) and Hao zhao cheng, et al., *Caishui:tizhi tupo yu liyi chongzu* (Beijing: Zhongguo caizheng jingji chubanshe, 1993). The first one gives a general historical perspective of the reforms after 1978 and criticisms of them, while the second concentrates on the late 1993 tax reform. The final book is one of a series concerning the structural change of Chinese economic development.

¹⁵ *Wen Wei Po* (Hong Kong), November 16, 1993.

¹⁶ *Daily Report*, China, FBIS-CHI-93-235, December 9, 1993, 24.

¹⁷ *China Economic News* 14, no.48, December 13, 1993, 1-2 and *Beijing Review* 37, no.11, March 14-20, 1994, 12-15.

¹⁸ *China News Analysis*, December 1, 1995, 6.

¹⁹ *Hang Seng Economic Monthly*, November 1995, 1.

²⁰ *ibid.*

²¹ Seth Faison, "China Export Boom Also Benefits U.S.," *International Herald Tribune*, March 5, 1997, 1.

²² According to Harry Harding, the most common usage of "Greater China" refers to "the expansion of commercial ties among the three main Chinese economies [China, Hong Kong and Taiwan]." See Harry Harding, "The Concept of 'Greater China': Themes, Variations and Reservations" in *Greater China: The Next Superpower?*, edited by David Shambaugh, (Oxford: Oxford University Press, 1995): 11.

²³ See Table below:

Table 1 The Urban Households Purchase of Durable Goods 1989-1995. An Average (unit per 100 households)

Item	1989	1990	1991	1992	1993	1994	1995
Wardrobe	2.53	3.60	3.42	4.06	4.26	3.59	3.58
Desk	1.07	1.40	1.87	2.52	2.51	2.44	1.94
Bicycle	15.80	13.27	20.65	21.55	22.41	18.59	13.38
Sewing Machine	1.07	1.40	0.52	0.13	0.17	0.35	0.18
Clock	7.00	8.27	12.00	11.74	10.61	11.03	10.33
Electronic Fan	16.13	20.93	27.35	20.06	11.69	14.71	13.93
Washing Machine	3.80	3.20	3.03	3.29	5.65	3.86	3.61
Refrigerator	4.87	4.33	3.87	2.45	3.01	4.11	2.63
Radio	1.93	2.00	1.94	2.00	3.80	2.32	3.67
Colour Television	4.87	2.93	3.87	4.58	3.83	6.71	5.44

Video Recorder	3.73	3.20	3.68	2.71	0.93	2.80	3.57
Camera	1.33	1.00	1.74	2.26	2.26	1.83	2.07
Black/White Television	1.20	0.33	0.32	0.39	0.36	-	-
Automatic Watch	6.33	7.33	6.71	-	-	-	-
Electronic Watch	5.27	11.00	10.58	-	-	-	-
Middle/High Class Musical Instruments	-	1.07	1.81	-	-	-	-
Electronic Cooker	-	6.33	10.65	7.23	7.95	9.97	8.84
Items appeared after 1992							
Assembled Furniture	-	-	-	1.81	2.46	3.00	2.34
Sofa-Bed	-	-	-	3.03	3.01	2.71	2.88
Sofa	-	-	-	12.71	11.54	8.15	11.36
Fan-Heater	-	-	-	0.39	0.64	0.17	0.14
Air-Conditioner	-	-	-	2.90	5.51	8.29	7.60
Electronic Cooker	-	-	-	7.23	7.95	9.97	8.84
Water Heater	-	-	-	5.42	6.10	7.90	5.74
Cooker-hood	-	-	-	5.61	5.76	5.34	4.03
Ventilator	-	-	-	2.71	2.15	2.45	2.91
Vacuum Cleaner	-	-	-	0.32	0.31	0.30	0.40
Motor-Cycle	-	-	-	1.81	3.32	3.26	2.93
Tricycle	-	-	-	0.39	0.26	0.36	0.32
Piano	-	-	-	0.26	0.05	0.13	-
Items related to information/knowledge & technology							
Telephone	-	-	-	5.23	10.12	9.36	8.94
Pager	-	-	-	0.65	0.95	2.92	1.91
Electronic Game Machine	-	-	-	3.94	2.28	1.29	1.01
Hi-Fi System	-	-	-	1.29	2.81	3.30	2.70
Stereo Tape-Recorder	-	-	-	0.90	1.81	1.26	1.34
Tape-Recorder	-	-	-	3.68	2.29	3.72	3.20

Source: *Statistical Yearbook of Guangdong, 1990* (Beijing: China Statistical Publishing House, 1990): 450-451; *Statistical Yearbook of Guangdong, 1991* (Beijing: China Statistical Publishing House, 1991): 364; *Statistical Yearbook of Guangdong, 1992* (Beijing: China Statistical Publishing House, 1992): 407; *Statistical Yearbook of Guangdong, 1993* (Beijing: China Statistical Publishing House, 1993): 411; *Statistical Yearbook of Guangdong, 1994* (Beijing: China Statistical Publishing House, 1994): 366; *Statistical Yearbook of Guangdong, 1995* (Beijing: China Statistical Publishing House, 1995): 416; *Statistical Yearbook of Guangdong, 1996* (Beijing: China Statistical Publishing House, 1996): 414.

²⁴ Joshua S. Goldstein, *International Relations* (New York: HarperCollins College Publishers, 1994): 411-416.

²⁵ Peter F. Drucker, *Post-Capitalist Society* (New York: Harper Business, 1993): 183.

²⁶ *Guangzhou Yearbook 1996* (Guangzhou: Guangzhou Yearbook Publisher, 1996): 383.

²⁷ *ibid.*

²⁸ United States Information Service (USIS), "U.S. Plans Trade Initiate Toward the Big Emerging Markets" *Economic Policy Background*, January 26, 1994, 1-18. The idea of BEMs was later published. See Jeffrey E. Garten, *The Big Ten: The Big Emerging Markets and How They Will Change Our Lives* (New York: Basic Books, 1997).

²⁹ The ten markets are China, Indonesia, South Korea, India, Turkey, South Africa, Poland, Argentina, Brazil and Mexico. *ibid.*, USIS, 1.

³⁰ *ibid.*

³¹ Jeffrey E. Garten, *op. cit.*, 65.

³² *South China Morning Post*, August 30, 1994.

³³ U.S. Senate Committee on Foreign Relations, *U.S. Policy Toward China: Hearing before the Subcommittee on East Asian and Pacific Affairs*, 103rd Cong., 2nd sess., May 4, 1994.

³⁴ *ibid.*, 33.

³⁵ *ibid.*, 75.

³⁶ Steven Mufson, "U.S. Trade Debate is Crucial to China's Growth" *International Herald Tribune*, May 2, 1997, 19.

³⁷ Robert Chase, Emily Hill, and Paul Kennedy, "Pivotal States and U.S. Strategy" *Foreign Affairs Agenda 1996* (New York: Foreign Affairs, 1996): 44-59.

³⁸ *ibid.*, 47.

³⁹ Jeffrey E. Garten currently is Dean of Yale School of Management and former U.S. Undersecretary of Commerce for International Trade. He made this statement when he was interviewed by Brian Knowlton. See *International Herald Tribune*, June 11, 1997.

⁴⁰ Although Deng Xiao-ping died at 21: 08, the official announcement was made by Xinhua at 2:41 on February 20, 1997. *South China Morning Post*, February 1997, 1 and *Wen Wei Po*, February 20, 1997, 1.

Appendix

Chronological Sino-U.S. Relations after 1972

- 1972 February 21-28 US President Richard Nixon visits China, issues the Shanghai Communiqué and opens the door to renewed Sino-U.S. relations.
- 1973 February 22 China and the United States announce the setting up of Liaison Offices in each other's capitals.
- 1975 December 1-5 U.S. President Gerald Ford visits China.
- 1978 December 16 China and the United States simultaneously publish a joint communiqué on the establishment of diplomatic relations.
- 1979 January 1 China and the United States formally establish diplomatic relations.
January 28 Chinese Vice-Premier Deng Xiaoping officially visits the United States.
April 10 U.S. President Jimmy Carter signs the "Taiwan Relations Act."
December 31 the United States ends its "joint defense treaty" with Taiwan signed in 1954.
- 1982 August 17 China and the United States sign the Communiqué of August 17 in which the United States pledges to reduce its arms sales to Taiwan.
- 1984 April 25-May 1 U.S. President Ronald Reagan visits China.
- 1985 July 22-August 2 Chinese President Li Xiannian visits the United States.
- 1987 October 17 China condemns the US Senate for interfering in China's internal affairs by passing a bill on the so-called "Tibetan issue."

- 1989 February 25-26 US President George Bush pays a working visit to China.
 May 25 the United States lists China as a country under the “super 301” article.
 June 29 and July 4 the U.S. House of Representatives and Senate respectively adopt a resolution imposing sanctions on China.
- 1990 February 22 China protests the U.S. State Department “human right report” for severely encroaching on China’s sovereignty.
 May 24 U.S. President George Bush decides to renew the most-favored-nation trade status to China for another year.
- 1992 January 17 China and the United States reach a Memorandum of Understanding on Protecting Intellectual Property Rights.
 January 30 Chinese Premier Li Peng meets with U.S. President Bush at the UN Headquarters.
 June 18 China and the United States reach a Memorandum of Understanding on Forbidding Import and Export of Prison Labor Products.
 October 6-10 China and the United States reach a Memorandum of Understanding on Market Access.
- 1993 November 19 Chinese President Jiang Zemin meets with U.S. President Bill Clinton at the informal summit of the Asia-Pacific Economic Cooperation in Seattle.
- 1994 March 11-14 U.S. Secretary of State Warren Christopher visits China.
 May 2 US President Clinton announces a decoupling of China’s MFN status from its human rights record.
 October 16-19 U.S. Secretary of Defense William Perry visits China.
 November 14 President Jiang Zemin meets with U.S. President Clinton for the second time at the informal summit of Asia-Pacific Economic Cooperation in Jakarta.
 December 31 the United States puts Chinese products worth US\$2.8 billion onto a list of temporary sanctions for alleged China’s “infringement” upon U.S. intellectual property rights.
- 1995 January 17-28 Sino-U.S. negotiations on intellectual property rights are held in Beijing without reaching an agreement.
 March 11 China and the United States sign an agreement on intellectual property rights.

- May 22, the U.S. government grants visa to Taiwan President Lee Teng-hui to the U.S.
October 24 President Jiang holds talks with President Clinton in New York.
- 1996 July 6 Assistant to the U.S. President for Security Affairs Anthony Lake visits China to pave the way for high-level visits.
- 1997 March 28 Newt Gingrich visits China.
March 26 U.S. Vice-President Al Gore visits China.
April U.S. Secretary of State Madeleine Albright visits China.

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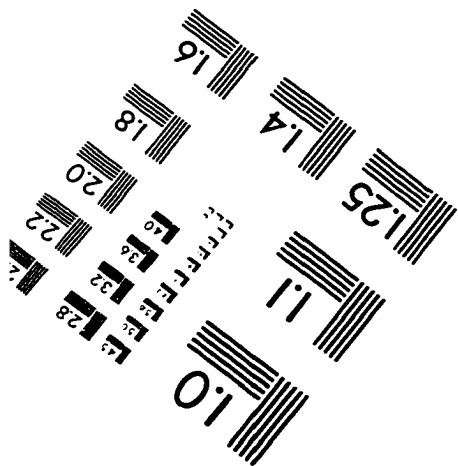
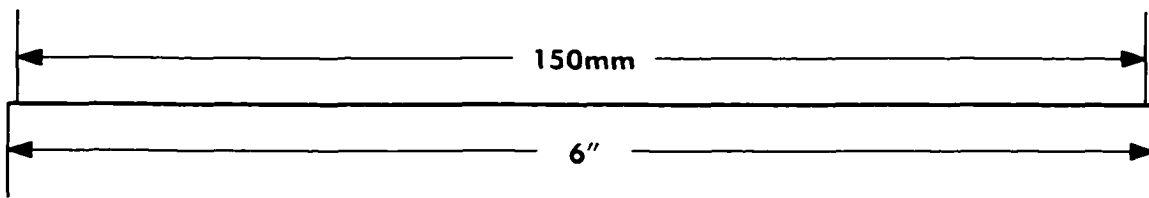
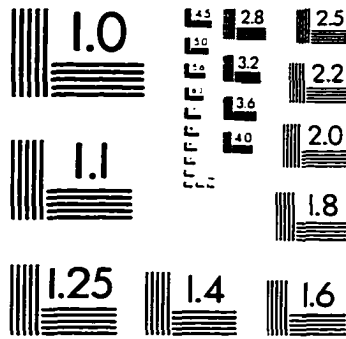
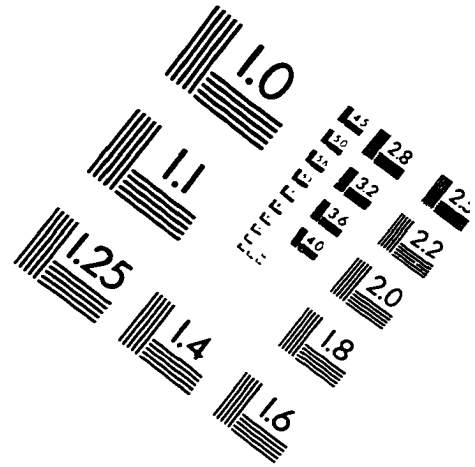
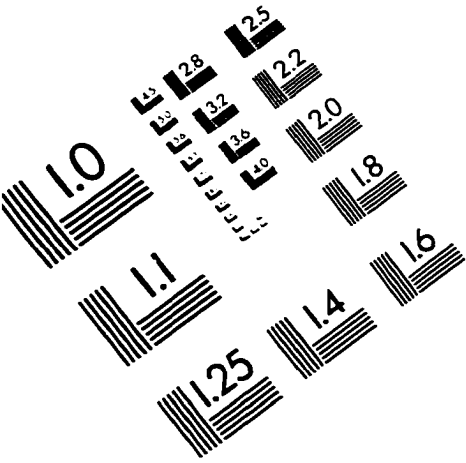
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