

**POLITICS OF US-CHINA TRADE
SINCE “TIANANMEN SQUARE”: 1989-96**

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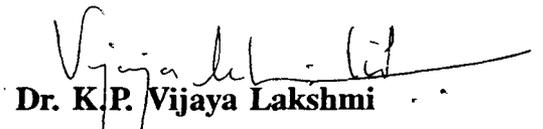
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CERTIFICATE

This is to certify that the dissertation entitled **POLITICS OF US-CHINA TRADE SINCE "TIANANMEN SQUARE": 1989-96** submitted by **SONALIKA VARMA** in partial fulfilment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** of this University has not been previously submitted for any degree of this or any other university. To the best of our knowledge this is a bonafide work.

We recommend that this dissertation be placed before the examiners for evaluation.


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PREFACE

The review of Sino-American relations since the Second World War suggests cycles of “progress and stalemate” and “crisis and consolidation”. This “fragile” relationship is of particular importance today as it represents relations between the world’s so called superpower, the United States, and the world’s up and coming superpower, the People’s Republic of China.

Currently, economic relations between the US and China are coming under increasing strain. Much of it stems from the end of the Cold War. During the earlier era of East-West tensions, the United States was willing to trade economic advantage, in return for support in it’s conflict with the Soviet Union. Although not a superpower itself, China derived considerable strategic leverage in the 1970’s and 1980’s from the widespread perception that it could affect to a degree, the outcome of a global confrontation between Moscow and Washington. It’s size, economy and strategic location made China a so called “geopolitical trump card” for the US. Chinese perceptions of Soviet expansionism also led to an establishment of a geopolitical alignment with America.

From the normalisation of relations in 1979, until 1988, the US-China partnership remained fairly stable. 1989, however, marked a significant change in the course of the bilateral relationship. The Tiananmen massacre altered American perceptions of Chinese moves towards liberalisation and democratic process. The resultant effect was

the emergence of a fractured consensus between the Executive and the Congress on the direction of US policy towards China. While the Congress called for a revocation or conditioning of China's Most Favoured Nation status, the Executive believed that a continued positive dialogue and presence in China would further democratic ideals and preserve human rights.

The Bush and Clinton administrations realized the futility of pursuing non-commercial interests by threatening withdrawal of the MFN, a purely commercial instrument. In this context, the extension of China's Most Favoured Nation Status acquired considerable importance and became the basis for all debates concerning US policy towards China.

The present study would attempt to analyse the Bush and Clinton Administrations positive policy initiatives towards China since 1989, despite Congressional diffidence over such an approach. Since the entire debate in the US is based on the extension of China's MFN status, a detailed study of the issue has also been attempted. For this purpose, the study has been divided into five chapters.

The first chapter is introductory in nature. It provides an overview of the rapprochement and normalisation process in the US-China relationship since the Sino-Soviet dispute.

In the second chapter, the Bush administration's policy towards China has been covered.

The third chapter deals with the changes in perspectives of the Clinton's administration's policy towards China.

In the fourth chapter, the Most Favoured Nation Status of China, the implications of its removal and the Congressional debates over its extension have been dealt with in detail.

The final chapter attempts to draw conclusions based on the study.

CHAPTER I

INTRODUCTION

US-China relations, from the signing of the Shanghai Communiqué in 1972 to the brutal suppression of peaceful demonstrators at the Tiananmen Square in 1989, has been the focus of intense study. Many analysts have reflected upon the achievements and challenges faced by the Sino-US partnership after the normalisation of relations in 1979. The present chapter analysis the major signals responsible for the 1989 political discontent in China which led to the massacre, which have then been identified and linked to the contentious battles that characterized Executive Congressional relations in the years following 1989. A brief survey of US China relations in the 1960's, 70's and 80's would thus provide a useful backdrop to discuss the nature of the changes that took place after 1989. Indeed, from the process of normalisation to confrontation, the US has been focusing on different aspects of it's policy towards China.

As early as October, 1967, Presidential candidate Richard M. Nixon repudiated twenty years of an anti- Peoples' Republic of China (PRC) stance. He urged the American policy to "come.. to grips with the reality of China"¹ On January 1 1979, twelve years and three Administrations later, the United States and the PRC finally succeeded in establishing diplomatic relations.

¹ Richard M.Nixon, " Asia After Vietnam", Foreign Affairs, 46, No.1, October 1967, p.121.

The entire process of normalisation required a complete reassessment of the bilateral relationship and was conceded to be a long and difficult process, highlighted by tensions, frustrations, secret diplomatic manoeuvrings and hard bargaining.

Almost thirty years later, the current debate on US- China reflects both the urgency and the reality of the philosophical disagreement over US national interests vis-à-vis China. The debate also centres on whether, the Administration and the Congress have consistently pursued these interests.

FROM CONFRONTATION TO CONSOLIDATION

The Republican Administration in 1969, inherited a China policy that had been formulated by the Truman Administration in the aftermath of the Chinese intervention in the Korean conflict. This policy rested on the assumption of closely coordinated Soviet and Chinese policies(the Sino-Soviet bloc) jointly devoted to achieving communist hegemony over the weak states of postwar Asia and the Pacific. This assumption had seemingly been confirmed by the Korean conflict and made into an “article of faith” for much of the American body politic by the virulent anti-communism of that time.²

² quoted from, Charles W. Freeman Jr., *The Rapprochement Process in US-China Relations*, in Gene T. Hsiao and Michael Witunski eds., **Sino-American Normalisation and its Policy Implications**, (New York : Praeger, 1983), p.1.

From 1951 to 1969, American policy towards China was one of isolation and containment. Cultural and economic contacts between the two countries remained minimal with an embargo on all trade and investment. The US refused to recognise the Communist Chinese leaders as the legitimate government of China. It opposed all proposals for the seating of the PRC in the United Nations and other international organisations. The United States further expressed its support for the Chinese nationalists in Taiwan and extended its willingness to help all other nations on the periphery of China whom the American policy makers saw as threatened by the “Chinese aggression.”³

In the early 1960’s, a slight shift in US China relations became evident. Though the Cultural Revolution in China had heightened Chinese rhetorical aggressiveness, it also revealed an economically weak China which was a limited threat to its neighbours. Faced with severe domestic economic problems because of the Great Leap Forward and the growing security threat from the Sino-Soviet dispute, the Chinese began to perceive the requirement for major adjustments in their foreign policy.⁴

³ for details of US-China relations from 1949 till the rapprochement process, see A.Doak Barnett, **China and the Major Powers in East Asia**, (Washington DC : Brookings Institution, 1977). Robert G. Sutter, **China -Watch : Toward Sino-American Reconciliation**, (Baltimore : Johns Hopkins University Press, 1978)

⁴ or details of US-China relations from 1960’s until 1972 see; Banning N. Garrett, “The Strategic Basis of Learning in US Policy towards China , 1949-1968,” in George W.Breslaner and Philip E.Tetlock, eds., **Learning in US Soviet Foreign Policy**, (Boulder, Colo. : West View Press , 1991) pp.208-63. John King Fairbank, **The US and China**, (Camb. Mass. : Harvard University Press, 1972). Warren I, Cohen, “The United States and China since 1945,” in Warren I Cohen ed., **New Frontiers in**

The Soviet invasion of Chekoslovakia in 1968 along with its enunciation of the Brezhnev Doctrine suggested that Moscow would not refrain from the use of military force against any socialist state undertaking reform. Though China resumed negotiations with Moscow, it identified the Soviet Union as a greater security threat than the US. The Chinese perceived an accommodation with the US to be a more effective way of enhancing China's security against the Soviet threat.⁵

It was against this background that both the Republican and Democratic parties began to propose changes to US policy towards China. During the 1968 Presidential campaign, Democratic candidate Hubert H. Humphery stressed on the need to replace "bamboo curtains" with "open doors".⁶ Republican candidate, Richard Nixon too made his views clear when he stated that "China should no longer be treated as a pariah".⁷ Undersecretary of State Nicholas Katzenbach also presented the Administration's view that the United States would be "happy to respond positively"⁸ to an improvement of relations with China. Thus, both Presidential nominees Nixon and Humphery seemed to favour a reconciliation with China.

American- East Asian Relations : Essays Presented to Dorothy Borg, (New York : Columbia University Press, 1983) pp. 129-67.

⁵ for detailed discussion of Sino-Soviet border dispute and US China policy see, Henry Kissinger, **White House Years**, (Boston : Little Brown, 1979) pp. 179-86 John King Fairbank, **The US and China**, (Cambridge Mass. : Harvard University Press, 1972) pp. 383-400.

⁶ *New York Times*, April 23, 1968, p.1.

⁷ f.n.1, p.122

⁸ US Department of State Bulletin, no. 1511,1968, pp. 737-40.

After his election, Nixon approved a resumption of Sino-American ambassadorial talks at Warsaw, the first since 1967. In early February 1969, the President initiated a major study of policy options towards China. In his February 1970 report to the US Congress on foreign policy, President Nixon reiterated his “desire for improved practical relations” with China. He described administrative action towards China as “specific steps that did not require Chinese agreement but which underlined our willingness to have a more normal and constructive relationship.”⁹ In effect, the Nixon Administration adopted a two pronged strategy. Publicly, it announced a series of unilateral gestures which did not require a Chinese response. Privately, the Administration opened several lines of communication through third parties, Romania and Pakistan to establish contact with China. These two tracks of Nixon's policy complemented each other. The blending of secret diplomacy and unilateral gestures ensured American sincerity and commitment. Beijing, too responded positively. The US and China undertook several public gestures to ease tensions between the two countries.

In his second address before the Congress on foreign policy, Nixon stressed that “ the United States is prepared to see the Peoples’ Republic of China play a constructive role in the family of nations”, explicitly abandoning two decades of US efforts to

⁹ Richard M.Nixon, US Foreign Policy for the 1970’s : A New Strategy for Peace (Washington DC : GPO, 1970) pp. 140-42. For details of unilateral US initiatives see, f.n.5 Kissinger, pp. 714-32.

isolate the Chinese, and, for the first time using the formal name of the Chinese Communist regime in an official US document.¹⁰ The long-term objective of the Nixon initiatives were later summarized as:

- to facilitate China's entry into the international community without threatening world peace and security.
- to acknowledge US national interest in the development of a strong, secure and prosperous China which could play a legitimate and constructive role in the Asia – Pacific region and ultimately in the world.
- to diffuse contentious issues dividing the US from China, thereby eliminating the possibility of a miscalculation by an emerging regional and nuclear power.
- to develop consultative patterns with the Chinese on international issues and build friendly and cooperative economic, commercial, cultural and other relationships with the Chinese necessary to sustain these ends.¹¹

Premier Zhou Enlai too outlined Beijing's initial strategy towards the US at the tenth National Congress of the Communist Party of China. These were:

- to balance relations with the United States against those with the Soviet Union,

¹⁰ US Congress, Joint Economic Committee, Papers submitted by William Clarke and Martha Avery, "The Sino-American Relationship in China. A Reassessment of the Economy", 94 Congress, 1st Session, (Washington DC : GPO, 1975) p.505.

¹¹ US Department of State Bulletin, no. 187, June 1980.

reducing the danger of a Soviet attack.

- to eliminate the danger of an American attack on China either unilaterally or in collusion with the Soviet Union, Japan, or others.
- to prevent the feared development of a Soviet -US superpower domination of the world to which China could be subjected.
- to achieve US and thereby world recognition of the legitimacy of the PRC.
- to access and enlist the economic and technological resources of the United States to build up the Chinese industry and defence capability.
- to obtain US acquiescence in the eventual reincorporation of Taiwan into China under the sovereignty of the PRC.¹²

American and Chinese objectives seemed congruent, internationally. While bilateral relations were complicated by the crucial question of Taiwan, by tacit agreement neither side pressed “controversial issues to the hilt”.¹³

The rapprochement process culminated in Henry Kissinger’s secret visit to China in July 1971 followed by a subsequent trip in October 1971.

The initial meetings helped the two countries outline key issues affecting the bilateral

¹² Zhou Enlai’s speech reproduced in, Peking Review, No. 35-36, 1973, p.17.

¹³ f.n. 5, p.749.

relationship. The Chinese demanded.

- complete US disengagement from Vietnam and abandonment of any attempt to establish a hegemonic role in Asia.
- cooperation with the PRC in the maintenance of a regional balance of power.
- Acknowledge Taiwan to be a province of China, withdraw its troops from Taiwan and abrogate the US- Taiwan mutual defence treaty.¹⁴

The US responded by stating that to maintain the regional balance of power, it would require Chinese support at various US military installations throughout Asia. It also suggested various forms of security cooperation and promised to inform the PRC in case of an understanding with the Soviet Union which might affect Chinese interests. On the issue of Taiwan, Kissinger stated that US recognized it to be part of China and assured withdrawal of its troops as US-China relations improved. Once the US affirmed to endorse the principle of one China, it became apparent that differences between the two sides could be bridged by what was called a mutual resort to “creative ambiguity”¹⁵. Kissinger's second visit on October dealt with more detailed issues

¹⁴ Harry Harding, *A Fragile Relationship : The US and China since 1972*, (Washington DC : The Brookings Institution , 1994), pp.37-38.

¹⁵ “creative ambiguity”, meant framing issues in language that each side could claim as representing its own position, while refraining from correcting or contradicting the other side. For further details see, Roger Sullivan, “ Discarding the China Card” ,

concerning the President's visit and the Joint communiqué that was to be signed at the end of his visit. The compromise document, the Shanghai Communiqué was signed by Nixon during his historic to China in February 1972. As astutely observed by Kissinger, this meeting was “ America’s return to the world of realpolitik”.¹⁶

For the next six and a half years until normalization was finally reached and announced in the Joint Communiqué of December 15, 1978,¹⁷ the Shanghai Communiqué continued to serve as the basic charter for the conduct of Sino American relations. Taiwan became an issue that could be managed if not solved.

In the first year following the issuance of the Shanghai Communiqué, progress in Sino-US relations was rapid. Zhou Enlai's acceptance of the US confirmation of the principle of one China without abrogating the US-Taiwan mutual defence treaty was received with great optimism by the Americans. The period saw the establishment of economic and cultural relations as the two government worked towards the gradual elimination of economic and cultural barriers. American businessmen were allowed to visit the Canton Trade Fair. The US on the other hand relaxed controls on the sale of technology to China moving it to 'Y' category (Soviet Union levels). In fact, certain

Foreign Policy, Spring 1992, pp.4-6.

¹⁶ Henry Kissinger, **Diplomacy**, (London : Simon and Schuster, 1994) p. 724.

¹⁷ Joint Communiqué on the Establishment of Diplomatic Relations between the USA and the PRC in Louis W.Koenig, James C. Hsuing and King-yuh Chang eds., **Congress, the Presidency and the Taiwan Relations Act**, (New York : Praeger, 1985) p. 172.

equipment and cyber computers that would not be sold to the Soviet Union were given to China¹⁸. A modest infrastructure, too, was set up to accommodate these growing ties. In 1972, China purchased 10 Boeing 707's from the US. Sino – American economic ties developed fairly rapidly in the early 1970s. Bilateral trade between the two countries rose to almost \$ 900 million by 1974, and leveled at \$ 350 million a year¹⁹. In January 1973, during Kissinger's fourth visit to China, the two countries agreed to exchange liaison offices.

The mid 1970s however, witnessed a dip, in the momentum of Sino- American relations. The Watergate affair had led to a political crisis in the United States and in China, the xenophobic and ideologically extremist “Gang of Four” had established widespread control. Further, during Kissinger's visit in November 1973, the Chinese reiterated that “normalization” could only “be realized on the basis of confirming the one China principal.”²⁰ Experts state that this reflected heightened Chinese sensitivity to the Taiwan issue and Chinese fears that the Nixon Administration would be incapable of achieving normalization. The Senate confirmation of a new ambassador to Taipei, Leonard Unger, is believed to have further angered the Chinese.²¹ In the final assessment, a resurgence of radicalism in Chinese domestic and foreign policies by the 'Gang of Four', the absence of full diplomatic relations between the two countries and

¹⁸ *New York Times*, February 15, 1972, pp. 16.

¹⁹ US Department of State Bulletin, no. 9, January 1979, pp. 14-19.

²⁰ *ibid.*, p.19

²¹ *ibid.*, f.n. 2, p.11.

the dead lock over the Soviet Union and Taiwan, led to the rise of turbulence in Sino-US relations.

NORMALISATION: ACHIEVEMENTS AND CHALLENGES

By 1976, a change in leadership was seen in the US and China. Following the death of both Premier Zhou Enlai and Chairman Mao Zedong, a coalition led by Hua Guofeng arrested the Gang of Four in Beijing. By November of the same year, Jimmy Carter was elected the 39th President of the United States.

Commentators claim that once Deng Xiaoping had established his position in China and secured support for a pragmatic economic development programme, he turned to secure normalization of US-China relations. The inflexibility on the part of Soviet foreign policy had led the US and China to view each other as partners in an international alignment against the Soviet Union. Zbigniew Brzezinski, National Security advisor to Carter, made clear to China that the US wished to establish full diplomatic relations as soon as possible. The Presidential Memorandum-24 provided the Carter Administration with options for the conduct of US-China relations. After six months of intense negotiation, the two countries reached an agreement on the establishment of diplomatic ties. As a result, the US ended its official relations with Taiwan, terminated the mutual defence treaty and withdraw its remaining troops from

the island.²²

The terms of normalization of Sino-American relation aroused a sharp debate in the US Congress. Opinion polls had consistently indicated that the public favoured the establishment of diplomatic relations with China without breaking relations with Taipei. Moreover, members of the Congress like Senator Dale Bumpers (D-Arkansas) Senator Gordon Humphrey (R- New Hampshire), Representative Dan Quayle (R- Indiana), Senator Jacob Javits (R- N York), felt that the Carter Administration had neither secured a pledge from Beijing that China would not use force against Taiwan, nor provided an adequate reiteration of the residual American commitment to the security of the island.²³ As a result, the Congress added to the Act a series of statements about continuing arms sales to Taiwan and the ongoing American interest in a peaceful future for the island. Although the Chinese denounced the act, claiming that the Taiwan Relations Act nullified the normalization agreement, Carter's assurances reassured, them to a certain degree.²⁴

In a Joint communiqué on 1st January 1979, the two countries announced that they

²² Zbigniew Brzezinski, **Power and Principle: Memoirs of the National Security Advisor 1977-81**, (New York : Farrar, Strauss, Giroux, 1983), pp. 51-2.

²³ for further details ,see, Leonard A. Kusnitz, **Public Opinion and Foreign Policy, 1949-1979** (Westport, Conn.: Greenwood Press, 1984) pp. 143-6. Jacob K. Javits, "Congress and Foreign Relations : The Taiwan Relations Act", Foreign Affairs, no.60, Fall 1981, pp. 54-62.

²⁴ f.n. 17, pp. 173-84.

would established diplomatic relations and would exchange ambassadors by March.²⁵ As a result of this historic development, Deng Xiaoping visited the US in January 1979, becoming the first high level Chinese Communist leader to make a state visit to the United States.

Normalization of relations promoted trade and economic expansion. By May 1979, the issue of blocked claims and foreign assets resulting from the Korean war had been resolved.²⁶ China subsequently began receiving trade credits from the Exim Bank, technical assistance programmes, investment guarantees from the Overseers Private Investment Corporation (OPIC) as well as advanced technology.

Grant of the Most Favoured Nation(MFN) status to China in 1980, dramatically changed the contours of the US China commercial relationship. Bilateral trade between the two countries doubled from \$ 1.1 billion in 1978 to \$ 4.9 billions in 1980, far exceeding original estimates.²⁷ However, increased trade deficits have made it, currently the most contentious issue on the bilateral agenda. Some of the basic facts about MFN are worth noting here.

²⁵ Thomas A. Bailey, **A Diplomatic History of the American People**, (Englewood Cliffs, N.J. : Prentice Hall, 1980) p. 968.

²⁶ Richard T. Devane, “ The United States and China : Claims and Assets”, Asian Survey vol. XVIII, December 1979. pp.1267-97.

²⁷ Robert S. Ross, **Negotiating Cooperation : The United States and China 1969-89**, (Stanford, Calif.: Stanford University Press, 1995) p. 152.

HISTORY OF MFN STATUS

The Reciprocal Trade Agreement Act of 1939 authorized the President of the United States to negotiate with foreign countries broad reciprocal trade concession agreements, which did not require Congressional or Senate approval. It also required the President to apply such concessions to products of all foreign countries unconditionally and without limitations except to countries that discriminated against the US. Under this legislation, the US concluded 27 bilateral treaties and in 1947, it signed a multilateral agreement through General Agreement on Trade and Tariffs – GATT, now the World Trading Organisation. Under current law, the United States is obligated to accord MFN treatment to all World Trading Organisation members and is entitled to receive it from all of them as well.

The US can grant MFN through 3 mechanisms:-

1. international agreement in which parties accord the MFN status reciprocally
2. accession to the World Trading Organisation
3. on the basis of the US general statutory policy of extending MFN treatment to all trading partners in accordance with section 126 of the Trade Act of 1974 (19USC 2136).²⁸

²⁸ Congressional Research Service, Report submitted by, Wayne M, Morrison, Vladimir N. Pregelj, Kerry Dumbaugh, Jeanne Grimmett, “Most Favored Nation status and China: History Current Law, Economic and Political Considerations and Alternative Approaches”, Washington DC, 19 November 1996, p. CRS-5.

The policy of general application of the MFN treatment was modified in 1951 by the Trade Agreements Extension Act (Section 5) when the President suspended the MFN status of the Soviet Union and “any nation or area dominated or controlled by the foreign government or foreign organization controlling the world communist movement”. This act was, however, modified through Title IV of the Trade Act of 1974 which authorized the President to restore MFN status to a nonmarket economy(NME) country under 2 conditions:

(1) requires fulfillment of the freedom of emigration clause. This clause must be achieved through a Presidential determination that the MFN doesn't place obstacles to free emigration of its citizen, or by a Presidential waiver of full compliance, under specific conditions requires fulfillment of the freedom of emigration.

(2) conclusion and maintenance in force of a bilateral trade agreement by the US and the NME country. The agreement must contain a reciprocal grant of MFN treatment and must be approved by a joint resolution of the Congress, enacted under a specific fast trade procedure and must be extended every three years.²⁹

Countries currently being denied MFN status are Afghanistan, Cuba, Kampuchea, Laos, North Korea and Vietnam.

²⁹ *ibid.*, p.CRS-6.

MFN STATUS AND CHINA

When the PRC came into existence as a political entity in 1949, United States had in effect an unlimited and unconditional trade policy based on the provisions of the Reciprocal Trade Agreement Act of 1934. China became a beneficiary of this universal automatic applications of concessions even though US – China trade was limited at that time. The Trade agreements extension Act of 1951 changed China status considerably. Under its requirement for suspension of MFN status to communist States, President Truman suspended China's Most Favoured Nation status on September 1, 1951 and Tibet's on July 14, 1952, after it was occupied by China.

However, a variety of changes in the relationship resulted in changes in the trading partnership as well. After normalisation of relations by 1979, the US was clearly interested in developing a long-term perspective of US-China trade. With this end in view, the very first step it took was to revoke the suspension of the MFN status to China since 1951. Following the recognition of China by the United States and the establishment of diplomatic relations between the two countries, MFN status was restored to China (and Tibet) under Title IV of the Trade Act of 1974. A trade agreement was signed on July 7, 1979 and the Jackson – Vanik agreement (freedom of emigration clause) was satisfied by Presidential waiver of full compliance issued on October 23, 1979. A concurrent resolution approving the agreement (H. Con.Res.

204) was adopted on January 24, 1980, and the agreement with its MFN clause entered into force on February 1, 1980.³⁰

China can retain its MFN status as long as the agreement and the Jackson Vanik waiver remain in force. The agreement concluded initially for three years is maintained by triennial agreements and can be terminated by either party by a notice of intent to terminate it at least 30 days before the end of a term.

Under a parallel provision of US-Law, (Sec. 405(b) (1) of the 1974 Trade Act) the agreement may be reserved triennially if a satisfactory balance of concessions has been maintained during its life and the President determines that the reduction of barriers to trade in multilateral negotiations are satisfactorily reciprocated by China.

To remain in force the Jackson-Vanik waiver authority and thereby China's MFN status must be renewed annually by a Presidential recommendation. This must be transmitted to Congress by June 3, every year. The recommended renewal is automatic with effect from July 3, unless it is disapproved by a joint resolution of the Congress. This is the only phase of procedure where the Congress can take action to withdraw China's MFN status.³¹

³⁰ Congressional Research Service, Report submitted by Vladimir N. Pregelj, "Most-Favoured Nation status of the Peoples' Republic of China", Washington DC, 24 October 1996, pp. CRS – 1-2.

³¹ f.n. 28, p. CRS-8.

Until 1980 the Congress and the President approved the extension of China's MFN status.

As a result, a profound change in attitudes was witnessed in both, America and China. The elation on the Americans side existed as much inside the government as amongst the general public. Despite this euphoria, some strains of discontent were expressed by officials of the AFL-CIO because of the loss of American jobs due to cheap Chinese labour. These concerns were reflected during the textile agreements which were successfully crafted in July 1980, after two rounds of intense debate. Further, the Congress remained concerned over the stability and security of Taiwan. China's unfavourable human rights records too had a negative effect.³²

The Chinese on the other hand, also held several reservations about American policy. The Carter Administration's lukewarm response to the Chinese invasion of Vietnam, the continued American interest in a peaceful future for Taiwan and the Taiwan Relations Act became major irritants which hampered the development of significant commercial and trade relations.

Experts identify three factors as responsible for the change in attitudes. First, the Reagan Administration introduced a significant change in US-Taiwan relations. It

³² *Wall Street Journal*, 25 July 1980, p.17.

upgraded ties with Taiwan by restoring official contracts between Washington and Taipei and increased American arms sales to the island. The Chinese leaders were alarmed by this reversal of attitudes which they found unacceptable. Second, the escalating American military buildup and Washington's confrontational posture towards Moscow, discomfited the Chinese. As a result, they adopted a more independent and positive role in international affairs abandoning the tilt towards the US.³³ Finally, the economic relations between the two countries too acquired a contentions tone. The principal problem during this period concerned textiles. China considered textile exports to be the basis for developing trade with the US. Between 1978 and 1982, a marked increase in the Chinese export of textiles to the US was witnessed. This led to increased American protectionism. The American textile industry demanded that the growth rate of Chinese exports in this sector be fixed at 2% as against the Chinese demand for 6%.³⁴ By January 1983, the US imposed unilateral restrictions on imports from China. The Chinese retaliated by stopping American imports of cotton, soybean, fibres and grain. By adopting this approach, the Chinese felt they would mobilize the American farmers to demand larger quotas for textiles to preserve their interests in the Chinese market.³⁵

³³ Gene T. Hsiao, "A Renewed Crisis over Taiwan and Its Impact on Sino-American Relations", in Gene T. Hsiao and Michael Witunski eds., **Sino American Normalisation and Its Policy Implications**, (New York: Praeger, 1983) p.83.

³⁴ *Wall Street Journal*, 20 January 1983, p.29.

³⁵ f.n. 14, pp.130-131.

Apart from this, several American firms echoed concern about the restrictive trade practices of the Chinese and demanded a limit on imports from China. The macro economic environment of the two countries during the 1980s became another reason for the slowing down of trading relations. In China, an ambitious investment plan in the late 1970s resulted in a flood of imports which reached \$ 20 billion in 1980. The 'Great Leap Forward' as it was termed led to China's first Balance of Payment deficit. This made the Chinese leaders reduce imports drastically. Therefore, imports rose only by 10% in 1981, declined in 1982 and remained stagnant in 1983. American exports to China fell to \$2.2 billion in 1983. In the US on the other hand, recession had a severe impact on the American imports from China with American purchases falling rapidly. The net effect of these two trends was that bilateral Sino- American trade fell to \$ 4.4 billion in 1983. Though trade was conducted over the next few years, it did not record any spectacular results.³⁶

The Chinese found evidence of inequality in several aspects of their bilateral relations with the US. According to them, the US expected support for its third world policy from China but did not endorse China's invasion of Vietnam. On the strategic front, they stated that though Washington was willing to sell arms to Beijing, it was unwilling to transfer the production technology to China.³⁷

³⁶ For further details see, f.n. 27, pp. 152-157.

³⁷ f.n.14, p.134.

In the United States, the newly appointed Secretary of State George Shultz undertook a reassessment of US policy towards China . He concluded that Beijing's importance in the American context should be downplayed. According to him, China's demands on various bilateral issues seemed excessive. The growing position of the US as a global power and its renewed relations with Japan did not require America to adopt a conciliatory posture towards China. Therefore, on the eve of the Shultz visit to China, Administration officials declared that the US was not willing to pay a "high price"³⁸ to sustain its relationship with China. The implication was clear : China loomed much smaller in American strategic calculations. As a reaction to the Shultz visit, Prime Minister Zhao Ziyang termed the Sino – American relations as "unsatisfactory" and as "requiring a change".³⁹

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By mid 1983 however, the US and China had successfully addressed some of the issues souring their relationship. By August 1983, a new textile agreement had been signed, the US relaxed controls on the export of advanced technology and resumed military exchanged with Beijing. The reconciliation between the two countries was finally cemented by an unprecedented exchange of visits by Zhao Ziyang⁴⁰ and Ronald Reagan.⁴¹ The two governments entered what begun to be termed as an extremely

³⁸ Department of State Bulletin, No.459, March, 1983.

³⁹ New York Times, March 30, 1983, p. A2.

⁴⁰ For details see, Beijing Review, 23 January, 1984, pp. 18-22.

⁴¹ Robert A. Manning, "China : Reagan's Chance Hit". Foreign Policy, No.54, Spring 1984, pp.83-101.

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collaborative relationship. It was during this period that new mechanisms for cooperation were adopted.

The mid 1980's, became a period of intense economic restructuring in China. A series of extensive reforms were codified into two comprehensive packages. In 1984 an outline of urban economic reforms was adopted and in 1985, the seventh 5 year plan for 1986 – 90 was introduced. These measures introduced changes in China's domestic and foreign economic relations as well as it's political system. In the domestic sphere, central planning were relaxed with an increase in the role of material incentives and market forces in the production and allocation of goods and service. The system of ownership too underwent change. The state relaxed control over means of production allowing the virtual de- collectivization of agriculture and the emergence of Town and Village enterprises (TVEs). At the same time central state monopoly over imports and export was moderated. Fourteen coastal cities were permitted to offer incentives to potential foreign investors along with the four special economic zone(SEZ's). Ideology new seemed to be playing a smaller role as political controls were loosened to inculcate freedom of expression. These steps toward greater efficiency and openness produced brisk economic growth. Annual GNP grew by 10% from 1983 to 1987. This accelerated Sino- American trade to \$13.5 billion in 1988. My mid 1986, more than 200 American firms had established representative offices in China and the US became the second largest investor in China after Hong Kong.⁴²

⁴² Richard E. Feinberg, John Echeverri-Gent, Friedemann, Muller, **US Foreign Policy and the USSR, China, and India – Economic Reform in Three Giants**, (New

Changes in American policy too helped stimulate Sino- American economic relations. The establishment of the three tiered system of export licenses and the transfer of China from category 'P' to 'V' in 1983, facilitated the transfer of technology to China which increased from \$560 million in 1983 to \$ 1.7 billion in 1987. Apart from the above, other networks were established to enhance economic ties. This included rectification of bilateral tax treaty between the two countries, setting up a special House Sub Committee on Trade with China Trade and the formation of a China Trade Caucus in the Senate.⁴³

The renewed commitment economic and political reform made the US more important to China and the Americans more willing to cooperate with Beijing.

Beijing's modified approach thus helped diffuse other areas of conflict including Taiwan. Although China had been successful in persuading the US to break diplomatic relations with Taipei along with a pledge to reduce arms sales it had not been able to compel an official dialogue across the Taiwan Strait. China hoped that a more flexible reunification formula similar to the one created for Hong Kong would encourage the Taiwanese to establish positive contacts with the mainland. This strategy prove successful as the Chinese and the Taiwan governments gradually relaxed restrictions

Brunswick : Transaction, 1990.), pp.79-86.

⁴³ For further details see, US Congress, House, Committee on Foreign Affairs, subcommittee on International Economic Policy and Trade, "Technology Transfer to China", 101st Congress, 1st Sess., Washington DC:GPO, 1989.

on commercial and cultural relations across the Taiwan Strait. As a result, the American role in the China- Taiwan dispute was reduced and the Taiwan issue was no longer considered a major obstacle in the development of US-China relations. Finally, unable to improve relations with the Soviet Union, China adopted a more comprehensive strategic relationship with Washington. The two countries devised mutually acceptable programmes by which the US would assist China in the development and manufacture of selected defence weapons.⁴⁴

FACTORS LEADING TO THE TIANANMEN CRISIS

Though economic relations between the two countries were growing the incomplete character of the Chinese economic reforms process presented a number of problems and contradictions within the Chinese economy. China had witnessed restructuring only to a level which stimulated a rapid expansion of Chinese exports to the US but not a similar increase in Chinese imports from America. Also, the investment climate remained stagnant due to the incomplete legal system, a corrupt bureaucratic structure and a complex set of rules and regulations.⁴⁵ The Chinese witnessed a growing trade surplus with the US which rose from \$ 2.8 billion in 1987 to & 3.5 billion in 1988. From 1987 onwards China's growing trade surplus with the US was strongly criticized

⁴⁴ For details see, Eden Y. Woon, "Chinese Arms Sales and US-China Military Relations," Asian Survey, Vol. XXIX, No.6, June 1989.

⁴⁵ Harry Harding, "The Investment Climate in China", Brookings Review, Vol. 5, Spring 1987, pp. 37-42.

by the United States Trade Representative (USTR) who termed the issue as “potentially enormous” but “impossible to quantify”.⁴⁶ High tariffs, import regulatory taxes, tight foreign exchange controls, restrictive quotas and licenses and inadequate protection of American Intellectual Property Rights(IPR’s) were identified as areas of US-China conflict. These limitations on American trade and investment were compounded by a policy of economic retrenchment undertaken by China which limited its import of American goods. All these issues led to a growing tension in Sino-American economic relations.

Until 1989, successive Presidents regularly submitted to the Congress their annual recommendation of the MFN which the Congress approved without adverse reactions. The Tiananmen incident of June 1989 shattered the consensus on the MFN status for the PRC. The Congress became more assertive in directing US policy towards China and consistently challenged the Bush Administration’s conciliatory approach. The Clinton Administration’s initial attempts to link the human rights issue to MFN proved futile and in 1994 led to the delinkage of the two issues. However, every year since 1990, Congressional opposition to annual renewals of China’s waiver and MFN status are reflected in the disapproval resolutions introduced in the House and the Senate. The Tiananmen square massacre and other violations of broader human rights have refocused Congressional opposition from the narrow context of freedom of emigration to one of human rights in general. The Tiananmen square incident and China’s overall

⁴⁶ “USTR Report – Trade Barriers in China,” in American Chamber of Commerce Outlook, Vol. 20, April 1988, p.58.

disregard for human rights as well as actions considered as endangering the United States national security triggered not only consistent Congressional moves to disapprove the annual renewals of China's waiver but also led to the introduction of a large number of measures specifically adverse to China's MFN status. These measures if passed would require an outright repeal of the status or subject it to a variety of additional conditions in the area of human rights.

In the years since China regained its MFN status in trade with the US, all legislative attempts at revoking it or subjecting it to additional conditions have been unsuccessful. While the Congress has consistently favoured the termination or conditionality of China's MFN status, the White House with the exception of the 1993 executive order has maintained the status without any conditions other than those of the freedom of emigration amendment.

The partial quality of political reform introduced in China too produced domestic upheavals. Paradoxically, China's freedom of expression and an exposure to American liberal ideas made Chinese violations of human rights increasingly apparent. It led to the emergence of the first political dissident community in China. In the US, too, for the first time since the establishment of diplomatic relations, human rights became a serious issue between the US and China. The consensus for stable relations with China seemed considerably reduced. As the strategic rationale for US-China relations lessened, Congressional support for it too got eroded. The conservative sections of the

US Congress represented by members such as Jesse Helms who identified the need for stronger US -Taiwan relations, were now joined by a number of liberal members, critical of China on different aspects of foreign and economic policy. These included Senator Glenn on nuclear proliferation, Senator Claiborne Pell (D-Rhode Island) and Representative Stephen Solarz (D – New York) on human rights. There was a drastic reduction in the number of members who supported the preservation of Sino-US relations. As one Chinese specialist put it, “China has few really dependable friends on the Hill”.⁴⁷

American interests groups like the US-China Business Council, too, echoed similar views. The executive branch too witnessed several inter-agency clash of interests. The result of these developments was a change in American policy towards China which now become less accommodative towards Chinese interests and more attentive of American needs.

As America changed, China too alternated its policy positions. Strong believers in the preservation of values and culture, the Chinese alleged that the Americans were exercising “ cultural imperialism”⁴⁸ in China. They stated that the Americans were beginning to inflict their political attitudes and values on the younger generation

⁴⁷ f.n. 14, p.210.

⁴⁸ China Update “How the Hard-liners Won”, *New York Times Magazine*, 12 November 1989, pp.38-41, 66-69, 71.

Chinese. They also termed the American demand for a more hospitable investment climate, greater respect for human rights and more autonomy for Tibet, as unnecessary interference with Chinese internal affairs. Consequently, the Chinese and the Americans adopted a more cautious approach towards one another.

Though the spectacular results of the economic reforms undertaken by Deng Xiaoping became visible through increases in the rate of economic growth, improved standards of living and overall economic vibrancy, the end of the decade produced less desirable results of the reforms. The Chinese were faced with growing corruption, widening inequalities, inflation and alienation of the urban Chinese from their government. Growing public dissatisfaction with the negative consequences of the reform became apparent.

In the spring of 1989, the intensity of protests assumed a serious dimension. This was further aggravated by a split in the Chinese leadership. One group led by general secretary Zhao Ziyang, supported by Deng Xiaoping promoted the complete marketization of the economy, curtailment of central planning and privatization of the state industries.

This group aimed at political reforms which would increase the powers of the municipal and local legislature and provide the Chinese with greater freedom of expression. The other group headed by premier Li Peng favoured the maintenance of

mandatory planning, opposed extensive privatization of industry and provoked a “socialist spiritual civilization”.⁴⁹

The economic situation in China worsened. Prices increased by almost 30% to 40% annually. These economic problems shifted the political leadership in favour of Premier Li Peng. As a result, the Chinese masses perceived a curtailment of Deng's economic reforms and postponement of provincial and municipal elections which would retard the political reform process.

The worsening situation in China led to student demonstrations in the heart of Beijing, the Tiananmen square. As the protests became more intense, China's administrators believed martial law to be the only solution. Deng Xiaoping gave his support to this view and undertook to mobilize military support for the onslaught.

As dissidence grew, the Chinese leadership sought recourse in a brutal carnage which left thousands of unarmed protesters dead and injured. This suppression of a movement for democracy stunned the world and was condemned through economic and political sanctions against China. American response to the situation, however, presented a strategy which while condemning China, preserved American economic interests. Indeed President Bush, believed that condemnation of China would be counter-productive to American interests.

⁴⁹ Avery Goldstein, “China in 1996”, Asian Survey, Vol. XXXVII No.1, January 1997, pp.33-34.

CHAPTER II

THE BUSH ADMINISTRATION'S POLICY TOWARDS CHINA 1988-1992

The Tiananmen Square crackdown in 1989 brought an end to a pattern of general Congressional support for administrative initiatives on China that had characterized US policy since 1980. Between 1989 and 1992, the Congress and the Bush Administration clashed repeatedly over the direction and conduct of China policy. The Bush Administration's limited response to China's human rights abuses became the basis for the conflict. Despite Congressional diffidence, President Bush, extended unconditionally China's MFN status. The Administration's initiatives during this period received little support from the Congress and public opinion. The Chinese however received the Administration's approach positively. This chapter would attempt to analyse these issues in the context of their success during the Bush years.

The US-China relationship witnessed important re-alignments after the political crackdown at Tiananmen Square, Beijing, in 1989. For the first time since the normalization of relations in 1978, the United States re-evaluated the interests and goals of its China policy. Although the changes were less explicit in the Bush Administration's policy towards China, Congressional positions vis-à-vis China were "unambiguous"¹ marking a shift in its bipartisan support for the US policy towards China.

¹ Qingshan Tan, "Explaining US-China policy in the 1990. Who is in control?" Asian Affairs, Vol. 20 (3), Fall 1993, p.143.

President Bush is said to have provided the Americans with “a kind of competent Reaganism”. His previous appointments in governmental positions provided him with an intimate experience of many important foreign policy tools. This produced a “Presidential activism”² in the policy process. As a result, the President is said to have been willing to override normal bureaucratic procedures whenever he felt it necessary. Assisted by professionals like James Baker, Richard Cheney, Brent Scowcroft, the Bush Administration worked and performed as an efficient team.

In one assessment, the Bush Administration’s functioning was referred to as “flexible and adaptive”, focusing less on coherence of policy and more on individual problem areas in which progress seemed possible. According to this view, this combination of skills and pragmatic attitudes effectively handled both the domestic politics of foreign policy and the detailed work of diplomacy itself.³ Bush and his team members were seemingly able to co-ordinate various departments for foreign policy purposes, to overcome entrenched political obstacles. President Bush was also seen as effective in negotiations with foreign leaders. Apparently, these connections helped him connect personally to other heads of states to avert disaster situations. Critics of the President's style of functioning often attacked his tenure as “a period of personal rule without a

² Terry L Deibel, “Bush’s Foreign Policy : Mastery and Inaction,” Foreign Policy, Spring 1992, p. 5.

³ *ibid.*, p. 5.

legislature”⁴. This style of dealing directly and secretly with foreign leaders feuding off public and Congressional scrutiny highlighted in relations with China, after the Tiananmen crisis, became the Administration’s hallmark. There emerged a strategy of governing through internal means rather than building support with the public or Congress.

ADMINISTRATION’S RESPONSE TO TIANANMEN CRACK DOWN

The pro-democracy movement of April-June 1989 and the subsequent brutal crackdown by the Chinese troops, emphasized the slowdown of the Chinese economic reform process and the reintroduction of authoritarian Communist patterns. The US could not directly influence the political despots in China. However, after the suppression, Washington led the international chorus of condemnation against the Tiananmen massacre. It took immediate steps to isolate the Chinese government and expressed moral support for the dissidents. President Bush announced three sanctions in response to the crackdown.

- Suspension of all government-to-government sales and commercial exports of military weapons and technology.
- Suspension of military exchanges between the two countries.

⁴ Charles Tiefer, *The Semi-Sovereign Presidency, The Bush Administration’s Strategy for Governing without Congress*, (Boulder : Westview Press), 1994, p. 2.

- Sympathetic review of request by Chinese students in the US to extend their stay.⁵

Deng Xiaoping's endorsement of the use of force, led the Administration to the extend the sanctions on June 20, 1989, to include:

- Suspension of high level governmental contacts between the two countries.
- Suspension of loans to China by the World Bank and other international financial institutions.

Other sanctions not publicly announced were

- Suspension of investment guarantees by the Overseas Private Investment Corporation (OPIC) and the Trade Development programme
- Suspension of issuance of export licenses for American satellites intended to be launched on Chinese boosters⁶.

To make the sanctions more effective, the Bush Administration requested its allies to implement similar measures. By July 1989, the Group of Seven (G-7) and the European community has postponed all economic aid to China and suspended all high-level official contacts. The World Bank and the Asian Development Bank too halted all

⁵ *New York Times*, 6 June 1989, pp. A1, A15.

⁶ *New York Times*, 21 June 1989, pp. A1, A10.

lending to China.⁷ All of these measures were based on the rationale that the US must maintain the existing network of private US-China contacts, exchanges and economic ties that clearly provided and will continue to provide the impetus for economic and political reform in China. The Presidential response to the Tiananmen massacre was flavoured by the President's previous associations with Beijing as the official representative to Communist China in 1974 – 75. Under public and Capitol Hill pressures, Bush proposed a reasoned and careful course of action. The Democratically controlled Congress and public opinion criticized Bush's policy for the lack of an effective approach. Representative Stephen J. Solarz (D-NY), stated that curtailing political and trade ties might “damage” US-China relations “but they may be morally necessary and politically prudent if the situation continues to deteriorate.”⁸

Despite Congressional diffidence, President Bush and his “narrow” circle of advisors became responsible for US policy towards China after Tiananmen. The President hoped to elicit positive gestures from the Chinese leadership by avoiding what he judged to be overly punitive and counter productive measures against China from the Congressional leaders and the American media. He was of the opinion that a continued American presence in China was essential to bring about political reform. His policy of 'Constructive Engagement'⁹ implied that the US through its presence in China, would

⁷ Harry Harding, *A Fragile Relationship, The United States and China since 1972* (Washington DC : The Brookings Institution), 1992, p. 227.

⁸ John Felton, “Brutal Crackdown in Beijing Deals Blow to U.S. Ties”, Congressional Quaterly Weekly Report, 10 June 1989, p. 1411.

⁹ US Department of State Dispatch, “China's MFN Status”, 9 March 1992, p. 189.

address US concerns on democracy and at the same time mature, vital business interests. The President believed that the US must be constructively involved with China because of China's size, location, strategic importance in world affairs and economic potential. The President attempted to move the US policy from a myopic view of China's strategic importance against the Soviet Union during the Cold War to one that took account of recent trends in East-West relations and emerging Sino-Soviet accommodation. In doing so, he appeared to agree with US experts¹⁰ on China who felt that there had been an erosion in the US-China relationship which had to be rectified and improved since the US had economic concerns, primarily the expansion of trade with the Chinese.

The President, therefore, remained concerned that an overly "emotional response"¹¹ to the suppression might create a total break in relations and the resultant reaction would be counter productive. In an attempt to diffuse the emerging crisis which was the result of the announcement of sanctions, President Bush opened new lines of communication. With the President's initial failure to establish direct contact with Deng Xiaoping, Secretary of State James A. Baker began a series of meeting with the Chinese Ambassador, Han Xu to resolve the issue of detained dissident Fang Lizhi and his wife, who had sought asylum at the American Embassy in China. He also conducted, a series

¹⁰ Robert G. Sutter, "Tiananmen's Lingering Fallout on Sino-American Relations." Current History, September 1991, p. 248.

¹¹ Robert G. Sutter, "American Policy Toward Beijing, 1989-1990 : The Role of President Bush and the White House Staff, Critical Issue Series, Heritage Foundation, January 1991.

of 'working meetings' with his Chinese counterpart, Foreign Minister Qian Qichen, at the Paris conference on Cambodia, in other third countries and international organizations. While secretary Baker met with Han Xu and Qian Qichen, the President sent National Security Advisor, Brent Scowcroft and Deputy Secretary of State, Lawrence Eagleburger, on a secret mission to China. This move, became reflective of the Administration's style of dealing directly and secretly with foreign leaders¹². The visit was to convey to the Chinese leaders including Deng Xiaoping, American concerns about the abuse of human rights in China and the need to prevent a collapse of US- China relations. Though this visit was a violation of the ban on high level exchanges between Chinese and American officials, the Administration considered it necessary.

Alternative methods of moderating the impact of the sanctions were also found. By July 1989, the Administration had :

- Permitted the sale of four Boeing 757 commercial aircraft, The Administration stated that the current sanctions were not intended to restrict civilian commerce with China¹³
- In October, the Administration announced that American engineers and Chinese

¹² John Felton "Bush Bid to Fix Ties Strains those with Hill", Congressional Quarterly and Weekly Report, 16 December 1989, pp. 3434-36.

¹³ *New York Times*, 8 July 1989, pp.1,32.

military officers would continue to work in the US avionics package for Chinese F-8 fighters though actual delivery of the equipment would be made after the arms ban had been lifted¹⁴.

In the aftermath of Tiananmen, the US policy towards China reflected the President's general approach to the conduct of foreign relations. It emphasized the establishment of personal contact with foreign leaders, absence of emotional rhetoric about the massacre and stress on strategic and economic concerns rather than human rights.

Indeed, the US interest in the process of political modernization in China which brought the issue of human rights to the forefront of the US-China relationship, gave place to pragmatic economic concerns. Furthermore, the Bush Administration's strategy of delineating domestic pressures from overtly influencing foreign policy, was based on the rationale of juxtaposing economic interests lobby to human rights lobby. Eventually, the Bush Administration believed that China would increasingly see its interests served by adherence to international norms, whether the issue was human rights, non-proliferation or trade. However, the US needed to be "constructively engaged" with China and pursue all its interests at various levels to achieve its goals.

¹⁴ *Washington Post*, 29 October 1989, p. A7.

CHINESE RESPONSE TO AMERICAN ACTION

The American response produced diverse Chinese reaction. The conservative group stressed for a retaliation against Washington. The moderate group however, felt that Beijing should maintain its previous foreign policy stance, reestablish political stability in the country and wait for the US and its allies to lift sanctions. The conservative leaders like Ziang Zemin accused previous Administrations of exaggerating the international tendencies towards economic competition and neglecting the importance of “politics” and “struggle”. They argued that the Tiananmen crisis reflected American resolve to end communist rule in China and described the American approach as a 'soft offensive' to encourage China's gradual transformation from socialism to capitalism in the name of political and economic reform. They claimed that American institutions were directly involved in the political ferment that caused the Tiananmen protests. They indicated that organisations like the Voice of America, George Soro's China Fund, the Johns Hopkins Center in Nanjing and the Committee on Scholarly Communication with the People's Republic of China were providing financial and ideological support and inspiration to the Chinese dissidents.¹⁵

The conservatives felt that though the Tiananmen crackdown had blunted some of America's soft offensive, the Americans had shifted their strategy. The sanctions

¹⁵ Au Zhigao, “Why Does China Oppose Bourgeois Liberalization?” Beijing Review, 12-18 February 1990, pp. 18-19.

adopted by them, were seen by the conservative elements not only as a gross interference in the internal affairs of China but also as the American technique for destabilizing and deposing the Chinese government. This school of thought, felt that China should revitalize its ties with hard-line communist states like Romania and North Korea, and develop friendly ties with other developing nations as an diplomatic alternative connection to the West. In contrast to the above view, the moderate leaders and analysts called for greater continuity in Chinese foreign policy. In their analysis, the overall international situation had not changed significantly. The decline in the power of the US and the Soviet Union promoted relaxation of international tensions. The emergence of new centres of economic power in Japan, Germany and the New Industrialized Economies NIEs stimulated an intense rivalry in international economy and technology. According to this group, Chinese foreign policy was well adapted to this changed international environment and the détente between the two superpowers and helped China improve relations with a wide range of nations in Asia.

This policy of peace and development not only helped Beijing minimize military expenditures but it also enabled Beijing to search capital, technology and markets, worldwide. If it were to isolate itself, China would risk facing competition for “comprehensive national strength.”¹⁶ Linked to this second line of argument was an interpretation of American action as benign. It was believed that as the situation in

speech by Chinese Ambassador to the US, Han Xu, reproduced in, Beijing Review, vol. 32, Sept. 18-24, 1989, pp.30-33.

China stabilized, the Americans would realize the importance of China, lift sanctions against Beijing and allow Sino-American relations to normalize. It was the moderates who voiced the majority Chinese view.

While the Chinese reaction to the American response was moderate, a fractured consensus over US-China policy between the Executive and Legislature became evident.

IMPLICATIONS OF BUSH'S POLICY APPROACH

The Tiananmen square massacre shattered the consensus on US policy toward China. Unable to pressure the Executive to take significant action against Chinese abuse of human rights, the Congress began to assert itself and challenged the President's domination of China policy. A rise of Congressional activism in US-China relations was apparent.

Initially, the first and the second batch of sanctions introduced by the Bush Administration received highly favourable reviews. Some Congressional opinion did call for more stringent, action which included, recall of the US Ambassador, suspension of commercial incentives under the Trade Development Program and revocation of China's MFN status. The majority, however, approved the Administration's actions. Public opinion too reflected this assessment. Sixty seven

percent in a Gallup poll and fifty four percent in an ABC News – Washington Post poll supported President Bush's policy towards China.¹⁷ Congressional and public opinion did however stress imposition of more extensive sanctions in China if rapid and decisive results were not obtained.

As the political situation in China rapidly deteriorated, Congressional and public support for the Administration's policies reduced. Statements by Vice President Dan Quayle and White House press secretary, Marlin Fitzwater however continued to reflect that the Administration would not impose any further sanctions.

In face of administrative inaction, the Congress introduced legislation which was combined into a comprehensive sanctions amendment. The House of Representatives passed it by a vote of 418 – 0 and the Senate by a vote of 81- 10. It was finally attached to the Foreign Relations Authorization Act Public law 101 – 246¹⁸.

The Tiananmen crisis therefore saw the end of bipartisan support for US policy towards China. It revealed in part, simple partisan politics where the Democratic Congress identified China as a foreign policy issue where the Republican President might prove vulnerable. It also reflected, the importance that the two institutions assigned to competing American interests. The Bush Administration stressed the

¹⁷ *New York Times*, June 14, 1989 p. A77

¹⁸ "Efforts at Hardline on China Thwarted", Congressional Quarterly Almanac, 1990, pp. 764-65.

importance of preserving a normal working relationship with China because of its strategic importance and the Congress emphasized the need to preserve and promote human rights in China. The split in consensus brought forward the issue of institutional prerogatives in the conduct of foreign affairs. The issue that emerged was whether American interests could be served if foreign policy was embodied in binding legislation. The White House argued that it needed greater flexibility and the Congress considered this to be an attempt by the executive branch to exclude it from the formulation of foreign policy. In annual debates for the renewal of China's MFN, the Congress continued to pressure the Administration to revoke China's status, albeit with little success.

President Bush's policy towards China was constrained by his overall orientation towards creating "a new world order"¹⁹. His vigorous involvement in international relations was often explained by his ability to see a new world coming into being – "..... a world order in which the principle of justice and fairplay protect the weak against the strong. A world in which freedom and respect for human rights finds a home among all nations"²⁰. Yet the President quickly subordinated principle to prudence in the response to the Tiananmen massacre.

Despite severe criticism from the Congress, human rights lobbyists and the media, the

¹⁹ f.n. 2 , p. 10.

²⁰ quoted from George Bush, Address Before Joint Session of the Congress, Weekly Compilation of Presidential Documents, Vol. 27, No. 30, 11 September 1990, p. 1359.

President argued that the Chinese could not be dealt with through “pressure” or with “sanctions”²¹. he secretly established his old connections with the Chinese to reassure their leadership that they had a friend in the White House. His public utterances via press conferences related the ascendancy of economic issues between the US and China. As the Congress kept “calling for tougher sanctions,” he argued in a June press conference that it was the strengthening of commercial ties that led to the “quest for freedom”²². Anything less than a prudent reasoned response, would in effect be counter productive to the vitality of US- China relations.

STRATEGIC BASIS

The end of the Cold War dramatically transformed the international environment. The disintegration of the Soviet Empire saw the emergence of a politically and economically weak Russia, which no longer posed a security threat to the United States. Consequently, it may be argued that, China’s strategic importance vis-à-vis the United States decreased somewhat.

Some proponents of the “China card” like Henry Kissinger, continued emphasize its importance in checking the Soviet aspirations in Asia. The Chinese too hoped that the

²¹ quoted from Michael Duffy and Dan Goodgame, **Marching in Place : The Status Quo Presidency of George Bush**, (New York Simon & Schuster, 1992), p. 182.

²² George Bush’s News Conference, Weekly Compilation of Presidential Documents, Vol. 25, No. 3, 11 June 1993, pp. 839-43.

Soviet Union might continue to serve as the basis for US-China strategic relationship: Chinese analysts warned that a post Gorbachev leadership in the Kremlin may revive expansionist and less accommodative foreign policy²³ .

The Persian Gulf crisis seemed to provide an alternative basis for strategic cooperation between the US and China. Beijing and Washington condemned the invasion of Kuwait in the UN Security Council and imposed economic sanctions against Baghdad. However, when the US resorted to military force to secure the liberation of Kuwait, differences between the two countries became apparent. Despite differences, President Bush agreed to enlarge Sino-American dialogue²⁴ . However, he included the condition that China address the issues of human rights and nuclear proliferation ; obviously, so as to enable the US to abstain from voting on World Bank loans to China thereby allowing them to be approved²⁵ . The Bush Administration subsequently defended the President's willingness to receive the Chinese foreign minister on grounds that the American President had provided a sharply worded statement on the American position on China's human rights and other issues of concern to the bilateral relationship.

²³ f.n. 7, pp, 269-70.

²⁴ Harry Harding, "China's American Dilemma" The Annals of the American Academy of Political and Social Science, Vol. 519, January 1992, pp. 13-26.

²⁵ Far Eastern Economic Review, 13 December 1990, pp. 10-11.

The American victory in the Gulf war intensified China's concern about its implications. The success of American military power in contrast to the declining Soviet power, made China aware of the emergence of a unipolar system centering around the US. The disintegration of communist regimes in Eastern Europe and the Persian Gulf crisis led China to improve its relations with its Asian neighbours. It stopped criticism of Gorbachev's economic and political reforms and continued to expand diplomatic, economic and military relations with the Soviet Union and Japan. It agreed to the admission of North and South Korea to the United Nations. A considerable improvement in relations with Vietnam was witnessed even before conclusion of negotiations on Cambodia. China also adopted a more accommodative position on regional issues. In late 1990, China joined other permanent members of the Security Council to develop a plan for a negotiated settlement in Cambodia. In 1990, it upgraded ties with South Korea and exchanged trade offices with Seoul apart from renewing a dialogue on the Korean Peninsula. Chinese leaders also proposed an international conference on the joint exploration of the South China Sea, thereby reducing disputes over possession. It also provided support to environmental and drug trafficking issues at the international level²⁶.

NEW INITIATIVE BY ADMINISTRATION

²⁶ Xiaoxiong Xi, "China's US Policy Conundrum in the 1990: Balancing Autonomy and Interdependence, Asian Survey, Vol. XXXIV, No. 8, August 1994, pp. 641-82.

Meanwhile, Kissinger and Nixon visited China, at the initiative of the Bush Administration. On their return, Nixon in a report to the Congress, identified the American interest in preserving a cooperative relationship with China. China, he reasoned, would be “essential to balance the power of [both] Japan and the Russia in Asia. It would have an indispensable role in controlling the spread of advanced conventional weapons, in preventing nuclear proliferation, in addressing environment issues and in managing regional disputes. It would be unwise for the US, Nixon concluded, to exclude itself from China's huge potential market, let alone run the risk of being an adversary rather than an ally of China in the next century.²⁷ Several American and China experts including the John Hopkins Foreign Policy institute issued reports that emphasized the “long-term importance of US-China cooperation to American strategic, political and economic interests.²⁸

In this seemingly supportive context, the Bush Administration embarked on a new initiative. A second, public Scowcroft-Eagleburger mission was dispatched to China in December 1989. Their visit was intended to convey to the Chinese that the US viewed China as an important country and wished to maintain friendly ties. Over the following weeks, the White House lifted the three sanctions that it had initially imposed :

- Granted export licenses for three American communications satellites to be placed

²⁷ Time, 20 November 1989, pp. 44 - 49.

²⁸ f.n. 7, p. 251.

into orbit by Chinese launchers.

- Resumed Exim bank lending to China.
- Granted approval of World Bank loans to China on a case – by case basis for those projects that were meant to meet basic human needs²⁹.

The Chinese response to this initiative was somewhat conciliatory. Immediately after the Scowcroft visit in December, the Chinese foreign ministry denied all reports of sale of M-9 missiles to Syria or any other Middle Eastern country.

The Chinese leaders also adopted some modest measures to relax the political climate. On January 10, 1990, they lifted the martial law that had been in effect since May 20, 1989. Later, they announced the release of almost six hundred demonstrators and removed the heavy guard that had been placed around the American embassy. Notably missing from these measures was the release of Fang Lizhi. The Chinese response on the whole seemed to suggest that the leaders were aware of their strategic importance vis-à-vis the US.

The Scowcroft – Eagleburger mission evoked intense controversy in the US over the wisdom of the Bush Administration's initiative. While a minority upheld the visit as an "act of courageous leadership",³⁰ the majority seemed to view it as a "placatory

²⁹ US Department of State Dispatch, "US Policy Objectives and MFN Status for China", Vol. 3, No. 27, 6 January 1990, pp. 552-54.

³⁰ *New York Times*, 13 December 1989, p. 31

concession to a repressive and bloodstained Chinese government.”³¹ In essence, the critics argued that the White House’s view that the visit was meant to review the entire US-China relationship was acknowledged much later and that the Chinese had not adequately reciprocated American concessions. For example, Beijing adopted a different definition of medium range missiles while describing them to the Americans. Also, they used the resumption of academic and cultural exchanges to shadow the issue of Fang Lizhi. The critics from human rights organizations charged that the relaxation of political constraints in China were minimal and that restrictions still existed on civilian activity. In fact, the State Department’s annual Human Rights Report issued in February acknowledged that “the crackdown as still continuing” and that “virtually all internationally recognized human rights discussed in this report are restricted, many of them severely.”³²

The Bush Administration’s initiative was further intensified with the CNN revelation of the Scowcroft-Eagleburger visit in July 1989, before the public, December 1989 visit. Through this visit, the Administration was reported to have undermined the sanctions, thereby misleading the American public and the Congress.

By February 1990, it became clear that the Bush Administration’s strategy was in

³¹ *Washington Post*, 11 December 1989, p. A14.

³² US Department of State, “Country Reports on Human Rights Practices for 1989”, report submitted to the Committee on Foreign Relations, US Senate and the Committee on Foreign Affairs, House of Representatives, 101 Congress, 2 session (Washington DC : G.P.O. 1990) , pp. 802-25.

trouble. The split between the White House and the Congress widened, as the Democrats vehemently attacked the President's initiative which had intended to end the impasse in Sino-American relations. Apart from lacking support in America for his China policy, the President also faced criticism from the Chinese for what they termed as the "harsh tone of the State Department's depiction of China in the annual human rights reports. They felt that the Americans were denouncing China through the report and demanded that the US resume transfer of technology to China, resume international financial lending and declare Fang Lizhi as guilty of anti-state activities."³³

Just when it seemed the Administration's constructive engagement was not producing desired results, a series of factors helped revive the situation. In 1990, it seemed that the Congress would demand revocation or conditioning of the MFN status for China. The cost effect of the denial of the MFN status to China would have severely strained US-China relations. Aware of the economic and strategic costs of withdrawal, the Chinese leaders adopted a multifaceted strategy to deal with the US. First, they encouraged America's allies to refrain from imposing further sanctions and return to a normal relationship. To achieve this, the Chinese targeted Japan whose support for sanctions against China began to waiver at the end of 1989, with public knowledge of American attempts at secret diplomacy through the Scowcroft- Eagleberger visits. By April 1990, Japan had restored foreign office contacts at the vice-ministerial level with China. In response to the Japanese stance, the G-7 Summit agreed to a partial

³³ *New York Times*, April 4, 1990, p. A12.

relaxation of sanctions against China, including consideration of World Bank projects that promoted economic reform or environmental issues, restoration of official contacts with China and a gradual resumption of Japan's bilateral and programme. Britain, Germany, Australia and New Zealand too resumed high level contacts and disbursement of earlier loans. Under such a situation, any attempt by the US to revoke China's MFN status would result in a noticeable discrepancy between US policy and that of its close allies.³⁴

There also emerged a new coalition of groups that represented the American business community with commercial interests in China, the American Chamber of Commerce in Hong Kong, representatives of the Hong Kong government, the Chinese business community and students. According to them, the impacts of any negative action against China would be detrimental to the bilateral relationship. Firstly, ending China's MFN status would lead to a trade war which would reduce American exports, yield market shares to foreign competitors, threaten the viability of American investments in China and increase the price of Chinese imports to American consumers. Keeping in mind the low cost of Chinese exports like apparel and footwear, sanctions would burden lower income Americans. Secondly, the political stability and economic viability of Hong Kong would be jeopardized. Since most of China's exports to the US passed through Hong Kong, a reduction of Sino American trade would damage the Hong Kong economy which would lose \$7 billion to \$10 billion in trade and

³⁴ For Eastern Economic Review, June 7, 1990, pp. 56-57.

approximately 20,000 jobs . Thirdly, restricting Chinese imports through higher tariffs would hurt small scale private and collective industry in the coastal regions of China which were the centre of Chinese economic reform. Finally, additional sanctions would be counter productive and would lead to tightening of political controls³⁵ .

China undertook other measures too. In May 1990, Beijing announced the release of 211 dissidents to assure the international community that the political climate in China was returning to normal. In subsequent weeks, it announced that it would purchase \$ 2 billion worth of Boeing aircraft. Jiang Zenim undertook several public relations measures like interviews and open letters to American university students describing the political situation in China. In June 1990, the Chinese permitted Fang Lizhi to travel to Great Britain.

Though these measures facilitated President Bush to recommend the renewal of China's MFN status, critics of the Administration consistently maintained that the political atmosphere in China remained highly repressive. Reports by Amnesty International and Asia Watch concluded that thousands of dissidents were still imprisoned, subject to physical and psychological torture and to arbitrary judicial procedures, and that the overall political atmosphere in China had worsened.³⁶

³⁵ Congressional Research Service Report, prepared by Wayne M. Morrison and Vladimir N. Pregelj, Kerry Dumbaugh & Jeanne Grimmett, "Most favoured Nation Status and China: History, Current Law, Economic and Political Consideratoin, and Alternative Approaches", Washington DC, 19 November, 1996, pp. crs -17-26.

³⁶ . Human Rights Watch World Report 1990 : Annual Review of Developments and the

Numerous bilateral problems plagued the relationship in 1991. By mid 1991, it became evident that though China had resumed economic reform, the process remained slow and cautious with Chinese leaders skeptical of marketization and privatization. No evidence of political reform existed, with Chinese leaders reiterating that they could never accept a multiparty system, independent political organizations or other forms of political pluralism. There was evidence of Chinese sales of advanced military technology to volatile regions, especially in the Middle East. The rising US-China trade deficit, further, became a feature for concern. The annual report of the US trade representative issued in March 1991, noted that the Chinese government had raised tariffs on many imports, tightened control over import licenses and increased the allocation of raw materials and financial credits to the export sector to produce a favourable balance in trade. These issues were supplemented by US concerns over China's intellectual property rights (IPR) regime. In April 1991, China was named as a priority foreign country under Special 301 for its IPR violations. Evidence suggested that Chinese textile manufacturers were shipping their goods to third countries for relabelling to evade American quotas on imports from China. *Also, against international law, China was said to be exporting to the US products made by convict labour. This created a powerful political linkage between China's trade surplus and its violations of human rights.*³⁷

Bush Administration Policy on Human Rights Worldwide, (Washington DC: Human Rights Watch, 1991), pp. 276-300. Asia Watch Report, Punishment Season; Human Rights in China after Martial Law, (New York : Asia Watch, 1990).

³⁷ f.n. 7, pp. 276-77.

The accumulation of contentious issues led to an inevitable debate on the extension of the MFN for China. Though a minority of Congress members proposed revocation of the trading status, majority support existed for the extension of conditional MFN as proposed by Donald Pease (D-Ohio) and Nancy Pelosi (D-Calif.) in 1990.

The Bush Administration however, was unwillingness to support entirely, the Congressional initiatives. Indicating this, in a speech at Yale University, the President announced his support for renewal of China's MFN status and considered his opponents at the Congress to have adopted a policy of "righteous isolation" He felt that such a stance would reduce the ability of the US to promote peace and stability in Asia and to foster freedom and democracy in China."³⁸

POLICY CHANGES BY THE ADMINISTRATION

These measures, however had no effect as evidence against China mounted. The House of Representatives voted 313-112 in favour of the Pelosi bill³⁹ . Before the Senate voted upon the Mitchell bill, the White House undertook several measures to redirect the course of its policy. On the eve of the Senate vote on the Mitchell bill, the

³⁸ Goerge Bush, "Bush says China MFN status will be catalyst for Change," Congressional Quarterly Weekly Report, Vol.49, Iss 22, June 1, 1991, p. 1459.

³⁹ David S. Cloud, "Bush Democrats Renew Battle over MFN Status for China," Congressional Quarterly Weekly Report, June 6, 1992, p.1594.

Bush Administration's new policy was outlined by the President in the form of a response to Senator Max Baucus, Chairman of the Subcommittee on International Trade of the Senate Finance Committee. On the basis of a visit by Richard Schifter, Assistant Secretary of State for Humanitarian affairs and talks between Chinese and American officials like, Trade Representative for China Joseph Massey, Undersecretary of State for International Security Affairs. Reginald Bartholomew, Undersecretary of State for Political Affairs Robert Kimmitt, the White House assured the Congress that the two countries were able to address the entire spectrum of bilateral and multilateral issues affecting their relations. Presumably, the President hoped to silence the critics of China's human rights record by this announcement.

Further, on the issue of human rights, many economic and military sanctions imposed in June 1989, remained in effect. the US also sought Chinese involvement in multilateral negotiations on arms control measures related to the proliferation of nuclear and conventional weapons and threatened tighter restrictions on technology transfer to China in the event of uncooperative Chinese behaviour.

On bilateral trade issues, China had been cited under Section 301 of the trade act for failing to protect Intellectual Property Rights (IPRs). The US also planned to deduct more than a \$100 million from China's annual textile quota to compensate for goods illegally transshipped through third countries. An embargo on all goods made by prison labour was put into operation. Action against other barriers to the Chinese market

were to be initiated under Section 301⁴⁰. On the issue of Taiwan, the White House was willing to admit it to the General agreement on Trade and Tariffs (GATT) even before China.

The policy described in the President's letter to Senator Baucus differed from the strategy of the Pelosi and Mitchell bills as well as that of the strategy followed by the Administration during 1989 and 1990. The President did not wish to discontinue China's MFN status, nor did he wish to attach conditions for its renewal on grounds that it could "cause serious harm to American interests."⁴¹

In all this, it looked as if the White House was no longer willing to make accommodative gestures to China. It seemed to possess a more aggressive attitude which demanded improved in China's political, economic and humanitarian record. The announcement of this new strategy enabled the Bush Administration to extend the MFN unconditionally.

Despite Congressional pressure to condition the extension of China's MFN status, President Bush announced on June 2, 1992 that he would continue trade benefits for China for another year, rejecting arguments that conditions be attached requiring improvement in Beijing's policies on human rights, arm sales and trade. White House

⁴⁰ Congressional Research Service Issue Brief prepared by Wayne M. Morrison, "China US Trade Issues", Washington DC, 25 March 1987, pp. crs - 8-11, 13-14.

⁴¹ Congressional Digest, "United States - China Act 1991", October 1991, pp. 228-29.

spokesman Marlin Fitzwater, reiterated Bush's contention in a written statement, "it is wrong to isolate China if we hope to influence China."⁴² Clearly, the President still hoped to be constructively engaged with China to avert any backsliding of relations.

The Pease-Pelosi bill introduced in the House of Representatives required that before the MFN status for China is renewed in 1993, certain conditions had to be met. These included:

- need for China to make an "acceptable" accounting of protesters arrested during the Tiananmen demonstrations and release unlawful detainees.
- to end religious persecution in Tibet as well as China,
- lift restrictions on freedom of expression, ensure freedom from torture.
- improve US access to Chinese market.
- the imposition of non-MFN tariffs only on goods produced by State-owned factories. Goods produced by companies that are joint ventures (Chinese-foreign) or by Chinese factories that are collectively or privately owned, would automatically receive MFN treatment in year July 1993.

Like the Pease-Pelosi measure, the Mitchell bill contained similar objectives.. Even though the House overrode the Presidential veto by a comfortable majority of 357-61, the Senate vote of 60-38 fell five short of an override.⁴³

⁴² f.n. 39.

⁴³ *ibid.*

While this was the domestic climate, a number of measures undertaken by China helped the Bush Administration to recommend an unconditional MFN status in 1992.

Firstly, China's emigration policy allowed its citizens to emigrate to the United States and other countries. In 1991, 18,000 Chinese received US immigrant visas. Another 80,000 non-immigrant visas were granted to PRC nationals for study, tourism and business purposes. The principle restraint on emigration was the willingness of other nations to absorb Chinese immigrants and not Chinese policy. China had therefore fully complied by the objectives of the Jackson-Vanik amendment. Secondly, in the area of human rights, the US continued to hold sanctions against China, until the Chinese made substantial progress in protecting basic human rights. The Tiananmen sanctions specifically targeted human rights issues. As a result, there was a suspension on programmes for military cooperation and sale of weapons to China's military and police. COCOM (Coordinating Committee for Multilateral Export Controls) still existed. Trade support programmes like the OPIC and TDP were still under suspension. Though limited progress on human rights had been made, the publication of a White Paper on human rights and exchange of delegations with other countries led China to discuss human rights on an international level. China also granted exit visas to some dissidents. Thirdly, by observing the Missile Technology Control Regime guidelines and acceding to the nuclear Non-Proliferation Treaty in early 1992, China increased its support for global non-proliferation initiatives significantly. The US also

seemed to feel that China played a constructive role in other international forums. As a permanent member of the UN Security Council, China cooperated with multilateral efforts to enforce sanctions against Iraq and Libya, facilitated the entry of North and South Korea into the United Nations and opposed North Korean efforts to develop nuclear weapons. It also contributed towards a comprehensive settlement of the Cambodian conflict. It was however in the area of trade that major Chinese responses were assessed by the US. For instance, in the area of Intellectual Property Rights, (IPR's), China responded positively to the Section 301 trade investigation with an agreement in January 1992 to improve protection of US patents and copyrights, including computer software. Further, membership of the GATT for China was made contingent to increase in market access for the US⁴⁴.

The Administration also strategically emphasized the loss to the American public and economy by withdrawal of the MFN status to China. The effect of MFN withdrawal on American consumers was highlighted by the Deputy US Trade Representative, Ambassador Moscow. Apart from effecting the less affluent Americans, the primary consumers of China's low cost goods, American exporters too would be penalized. If China were to retaliate by denying America, MFN, American farmers, would loose their large export market to Canadian and Australian producers. Similarly, other US manufacturers would loose market shares to Japanese, Korean and European

⁴⁴ US Department of State Dispatch, "US Policy Objectives and MFN Status for China", Vol. 3, No. 27, 2 July 1992, p. 553.

competitors. As these initiatives and strategies were continued by the Bush Administration, there was also concrete bilateral negotiation to buttress the Administration's argument. For instance, a prohibition on the export of prison labour products through a Memorandum of Understanding (MOU) between USA and Chinese negotiators was reached in May 1992.

As a result, the Administration's strategy seemed to have worked and MFN status for China was extended unconditionally. The Bush Administration argued that through constructive engagement, American national interest had been preserved.

Even three years after the Tiananmen massacre, relations between the US and China remained strained inspite of the Bush Administration's efforts at preserving and normalizing the relationship. A change in the operational milieu caused by the end of the Cold War and the consequent reduction in China's role as a counterweight to the Soviet Union was an important determinant of this change. The US Congress continued to be assertive in directing US policy towards China by constantly stressing the importance of human rights in annual debates on MFN status for China, after 1989. In part, President Bush's measures were due to the growing economic importance of China in international economic relations, the size of its consumer market and the role China will play as a permanent member of the Security Council. Therefore, between 1989 and 1992, US policy towards China was characterized by confrontation rather than consensus, with the Congress and the Bush Administration clashing repeatedly on

the direction and conduct of policy. The 1992 elections symbolized a referendum for change. President Bill Clinton and his campaign rhetoric which promised to link China's MFN status to human rights implied that a substantial change in US policy towards China could be expected in the coming years.

CHAPTER III

THE CLINTON ADMINISTRATION: FROM HUMAN RIGHTS TO COMMERCIAL INTERESTS – CHANGES IN ADMINISTRATIVE POLICY PERCEPTIONS

The policy approach of the Clinton Administration revealed a position on China which was markedly different from the policy of engagement pursued by the Bush Administration. President Clinton's initial policy was based on the theory that the US should use its economic leverage actively to promote democracy and human rights in China. In 1994 however, Clinton announced his decision to delink the human rights issue from the yearly extension of China's MFN status. The Administration's policy change was based on a recognition of the economically and strategically resurgent China. Domestic and international developments had a significant effect on the Administration's adoption of a new approach. In this context, an attempt to study the Clinton Administration's initial policy, its change in approach in 1994 and the reasons affecting this change has been made in the present chapter.

The election of Bill Clinton to the office of the President saw the first Democratic Administration in 12 years at the White House. Elected on a mandate for change, the Clinton Administration in its first term adopted an operating style entirely different from that of the Bush Administration¹.

¹ Seymon Brown, **The Faces of Power - United States Foreign Policy from Truman to Clinton**, (New York : Columbia University Press), 1994, p. 581.

Highly critical of the Bush Administration's so called preoccupation with foreign affairs and complete neglect of domestic priorities, Clinton interpreted his election as a mandate to stabilise the American economy. The Democratic party believed that the principal threats to the security, well being and basic way of life of the Americans arose not from foreign adversaries but from the worsening economic condition of the country. The adverse international trade balance targeted by the Democratic Congressional leadership during the Bush years as one of the principal causes of the domestic economic crisis and abnormally high levels of unemployment, was identified by Clinton as a symptom for domestic economic restructuring. It was believed that the falling US competitiveness in international economic cooperation could be restored by reviving the competitiveness of US products in the domestic and global market. The President took recourse more in domestic policy than in foreign policy to achieve this objective.²

INITIAL POLICY TOWARDS CHINA

Clinton's views on US policy towards China presented a stark contrast to that of George Bush. At the Democratic National Convention Clinton had vowed that his Administration would "not coddle tyrants from Baghdad to Beijing"³. Until 26 May,

² *ibid.*, for an interesting analysis of Clinton's early years in office, pp. 561-62.

³ Joseph Fewsmith, "America and China: Back from the Brink", Current History, September 1994, p. 250.

1994, the President's core idea on China policy remained consistent : to create a link between trade and human rights for the PRC. From June 1992 to September 1992, Clinton attacked George Bush for his "indifference to democracy"⁴ and stressed that "we have a big stake in not isolating China" but "we also have to insist, I believe, on progress in human rights and human decency."⁵

In a pre-inaugural address on foreign policy, President elect, Bill Clinton put forward the three pillars of his policy as:

- economic security of the United States
- restructuring of the US armed forces
- spread of Democratic values and ideas⁶.

President Clinton entered office against a backdrop of competing policy goals. When dealing with China, the Administration found its foreign policy goals of social justice, national economic self interest and world order, increasingly difficult to integrate. It faced a political climate which lacked a national consensus on relations with China epitomized by a "bipartisan Congressional vitriol against Beijing."⁷ Since the

⁴ *Washington Post*, 2 October 1992, p. A4.

⁵ China Business Review, January-February 1993, p. 18.

⁶ Department of State Dispatch, "Bill Clinton address to the Diplomatic Corps," Vol. 4, No. 5, 1 February 1983, pp. 57-58.

⁷ Robert A. Manning, "Clinton and China : Beyond Human rights", Orbis, 1993 p. 105.

Administration had vowed to restore the primacy of public and Congressional debate, its initial move was to formulate policy with attention to Congressional and public concern.

The initial actions of the Clinton Administration appeared to appease Congressional mindset on the question of MFN renewal. The initial policy was based on the theory that the United States should use its economic leverage to actively promote democracy and human rights in China. Within two weeks of the inauguration, the Administration undertook a policy review of China. On 28 May, 1993, President issued an Executive Order 12850 which set additional conditions for the mid 1994 extension of China's MFN. Clinton undertook this measure with "brokered"⁸ support from Senate majority leader George Mitchell (D-Maine) and Representative Nancy Pelosi (D-Calif.).

The key factor in Clinton's ability to gain support for conditional MFN status was that the China issue seemed to have lost its partisan edge with a Democrat in the White House⁹. Further, visits by more than a hundred senators, Congressmen and White House staff to China in 1992, seemed to have changed the morbid perceptions of repression and presented a picture of a dynamic and booming China. As Senator John Kerry (D) stated "I came back from my visit there just absolutely convinced that things are much different than in 1989"¹⁰. In essence, these visits provided clear

⁸ Robert A. Manning, "To A China Policy for the Future", Mimeo, p. 33.

⁹ *ibid.*, p. 35.

¹⁰ *Wall Street Journal*, 31 May 1994, p. A18.

evidence of a substantial improvement of the human rights situation.

The executive order tried to thread conflicting demands of economic interests, democratization and partisanship.¹¹ In a strongly worded letter to the Chinese government, fourteen issues of concern set within three broad categories : human rights, proliferation and trade were outlined by the Administration as essential to rectify, to warrant further MFN extension in 1994.

In accordance with US law, the order set two mandatory conditions on China

- End restrictions on the emigration of family members of dissidents.
- Stop export of prison made goods to the US.

It also required China to show significant progress on five other issues: accounting for political prisoners, lessening repression in Tibet, allowing Voice of America broadcasts into China, improving prison conditions and providing better treatment to religious minorities.¹²

The executive order was hailed as a “brilliant compromise”¹³ . It demonstrated

¹¹ f.n. 3, p. 251.

¹² David H. Lampton, “America’s China policy in the Age of the Finance Minister : Clinton Ends Linkage,” China Quarterly, September 1992, p. 602.

¹³ f.n. 7.

Clinton's concern with human rights while preserving the country's economic status. The policy however as a China analyst put it, was intended to solve a "domestic problem instead of a foreign policy issue"¹⁴.

This was primarily because the order responded to domestic political pressures from the Congress, human rights groups and the business community. However, it left unreconciled the differing opinions about priorities in US relations with China, which led to a confrontation between the Chinese and American leaders.

Even within the Administration, differences existed over the practicality of the order. While the economic side hoped that the policy would go beyond the human rights controversy, those in charge of implementing the policy such as the Secretary of State Warren Christopher and Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord, looked upon it as a method of furthering the human right agenda. It is believed that this was based on an erroneously held view of the eminent collapse of Chinese communism and the effect of public pressure on Chinese leaders. Even though, the Chinese government was loosening the controls, communism was still firmly entrenched. Public pressure on the other hand, was stated to alienate other nations and "created sympathy for the leaders in Beijing".¹⁵ However, by 1994, Clinton's policy underwent a major change. From linkage, it became a policy of

¹⁴ *Washington Post*, 12 May 1994, p. A28.

¹⁵ *Far Eastern Economic Review*, 10 January 1994, p. 27.

“Comprehensive Engagement”¹⁶ .

FACTORS LEADING TO ADOPTION OF POLICY OF COMPREHENSIVE ENGAGEMENT

Notwithstanding an artful compromise reached on the China policy by the Administration, a series of controversies over human rights, trade and nuclear proliferation erupted in rapid succession in 1993- 1994.

Perhaps the most explosive was a series of strategic issues pertaining to Chinese adherence to international non- proliferation norms. In July 1993, the US intelligence began tracking a Chinese freighter , Yin He, believed to be carrying a shipment of chemicals to Iran (even though China had signed the Chemical Weapons Convention, it went into effect only in 1995). By August, US admonitions to China and demands to inspect the ships' cargo led to a public confrontation between the two countries. China finally permitted the inspection of the ship at the Saudi port of Darhein. Much to the embarrassment of the Americans, no chemicals were found and it became apparent that the US intelligence had erred¹⁷ . The Yin he incident seriously damaged US positions, when other issues were already undermining the existing bilateral relations.

¹⁶ US Department of State Dispatch, “Comprehensive Engagement in US China Relations”, Vol. 6, No. 17, 24 April 1995, pp. 354-55.

¹⁷ f.n. 7, p. 103.

Another dispute arose over Chinese export of M11 missile technology to Pakistan. China had earlier pledged to adhere to the Missile Technology Control Regime (MTCR) and had specifically made a commitment to then Secretary of State James Baker that it would not sell missiles to Pakistan. Yet by early 1993, US intelligence agencies had acquired hard evidence of M11 transfers to Pakistan. Angered by US sales of F-16 jets to Taiwan, the Chinese refused to discuss the issue. During Under Secretary of State Lynn Davis's July visit to China. China argued that in its sale of missiles, it adhered to MTCR guidelines which banned exports of missiles with a 300 kilometer range. On August 25, 1993, the State Department reluctantly imposed modest sanctions on the satellite launchers (jeopardizing \$ 400 million worth of business to Hughes and Martin Marietta). Evidence also existed of China conducting its 39 nuclear power test, against the Non Proliferation Treaty (NPT) policy¹⁸.

China further, refused to allow previously detained labour activist Hang Dong Fang to return to China and jailed several other dissidents as well. Disputes also raged over textiles, illegal rhinoceros horn imports and the US opposition to Beijing's bid to host the 2000 Summer Olympics.¹⁹ In effect, there existed a severe crisis situation in the bilateral relationship.

In Washington, the dramatic deterioration in US-China relations prompted the Clinton

¹⁸ f.n. 8, p. 36.

¹⁹ *ibid.*

Administration to draft an “action memorandum” calling for broader engagement with China. The Administration adopted a policy of “comprehensive engagement”. The purpose of this strategy was

- to pursue all American interests at the levels and intensity required to achieve results.
- to seek to build mutual confidence and agreement in areas where US-China interests converge;
- through dialogue, to reduce the areas of difference²⁰.

National Security Advisor, Anthony Lake met with the Chinese Ambassador to propose a series of top level meetings along with an invitation for a Presidential meeting at the November APEC meet in Seattle. The United States reaffirmed that US policy continued on the basis of the “three communiques”.²¹

An easing of relations was witnessed as State Department officials like Assistant Secretary of State for Human Rights, John Shattuck, Deputy Trade Representative Charlene Barshefsky, Agriculture Secretary Mike Epsy and Assistant Secretary of

²⁰ US Department of State Dispatch, “Current State of US-China relations”, Statement before the subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relations Committee, Washington DC, July 25, 1995, Vol. 6 No. 30, p. 587.

²¹ US Department of State Dispatch, “American Interests and the US-China Relationship”, Address before Council on Foreign Relations, , Vol. 7, No. 22, May 27, 1996, p. 265.

Defence for Regional Security, Charles Freeman, visited China.

Secretary of State Warren Christopher meeting with Chinese foreign minister Qian Qichen on September 30, restored military contacts between the two countries. The stage for the Presidential meeting at Seattle, the highest level contacts since the break in diplomatic relations was set.

President Clinton's November 19, 1993 meeting with the Chinese President Jiang Zemin symbolised the beginning of a new stage in Sino-American relations where Clinton called for the establishment of a "strong stable and prosperous China."²² Given the President's appraisal of China's economic importance, it became apparent to observers that the MFN would be extended for another year.

In essence, it seemed the Chinese were giving Clinton "face" on human rights by taking steps to meet minimum US demands contained in the 1993 executive order. The quid pro quo was that the US would provide assurances to restore normal dealings by abiding by the three communiqués, thus supporting a strong stable China.

By end January, 1994, Beijing had released prominent Tibetan political prisoners and had begun talks with the International Committee of the Red Cross with the aim of reaching an accord on the monitoring of Chinese prisoners, They had also agreed to

²² f.n. 3, p. 252.

provide access to US customs officials to inspect prisons alleged to be exporting goods to the US as a part of the agreement between the US and China on prison labour exports, agreed to review a list provided by Washington of 235 political prisoners and hinted that a number of prominent political prisoners would be released soon. In addition, during Secretary of Treasury Llyod Bentsen's visit to China, an accord on textiles was finalized. China also agreed to open its financial markets to US financial institutions. A visit by Federal Reserve Chairman Alan Greenspan to China helped devise and regulate the Chinese securities market through technical advisory groups formed from the Security and Exchange Commission and the US Customs Service. On the issue of trade, Beijing moved to improve market access by reducing tariffs on 234 products eliminated quota as and import licenses on 238 others by mid February."²³ To all this, the United States reciprocated the Chinese concessions through a number of gestures, but continued to demand more progress on human rights.

Apart from re-establishing regular military to military dialogue including setting up of a joint commission on defense conversion, Secretary Lloyd Bensten restored the Joint Economic Commission to oversee trade and financial matters. The Administration cooperated on technology issues as well. The State Department redefined sanctions to be implemented on satellite launches, allowing the launch of three Chinese satellites. On the eve of President Clinton's meeting with Jiang Zemin in November, the sale of a Cray Super Computer to China was approved.

²³ f.n. 7, p. 109.

It seemed for a while that confrontation would be avoided. In February 1994, Zemin informed a visiting Congressional delegation of China's commitment to improving the human rights situation. However, just when stability seemed imminent, Chinese attitudes hardened sharply.

The reasons for this shift seemed primarily domestic. Deng Xiaoping's failing health increased Chinese dissident activities in China. Several dissidents like Wei Jingsheng, Wang Dan and Xia Liangying wrote articles and published papers demanding greater political reform. Such activity was condemned by the Chinese leadership, and Ziang Zemin moved to suppress it. The US Assistant Secretary John Shattuck's unauthorized meeting with Wei Jingsheng too was criticized by the Chinese with accusations of American interference in domestic affairs. On the day that Shattuck left China, Chinese authorities detained Wei Jingsheng and several other dissidents. The detention jeopardized Warren Christopher's march visit and was termed as "not very helpful"²⁴ by President Clinton. After some deliberations the Administration decided to proceed with the visit.

Secretary of State, Warren Christopher's march visit further strained relations. Christopher adopted a patronizing attitude towards China. He reiterated previous Administration statements and declared that recent Chinese action would have a

²⁴ see for details, f.n. 3, p. 253.

negative effect on the secretary's recommendation for MFN extension. By the end of his visit, the Secretary of State had not only been rebuffed by Chinese leaders but also by American business men who complained that US policy was misguided, counter productive and on a completely different wave length to that of the business community's long term interests. At a meeting sponsored by the Council on Foreign Relations, three former secretaries of state Henry Kissinger, Lawrence Eagleburger and Cyrus Vance criticized the Administration's actions for its "monofocal heavy handed approach"²⁵. At the same time, Senator John Kerry (D-Neb), previously a strong advocate of sanctions on China and Lee Hamilton, Chairman, House Foreign Affairs Committee, told the Administration that a new policy towards Beijing was required. Confronted with administrative disarray and accusations of foreign policy incompetence, Winston Lord, chief architect of the Administration's China policy became one of its most articulate critics. In a memo to the secretary of state, he stated that the American style of "aggressive unilateralism was giving ammunition to those charging we are an international nanny, if not bully"²⁶.

Meanwhile, there also developed international resistance to the United States imposed notions of universal human rights. For instance Japanese Prime Minister, Morihiro Hosokawa publicly dissented with the Administration's approach during his March visit to China. Singapore, Australia and Hong Kong too disagreed with the US

²⁵ f.n. 12, p. 608.

²⁶ Winston Lord, "Emerging malaise in our relations with Asia", undated memorandum to Secretary of State Warren Christopher.

posture. In addition, trade disputes with Japan, labour conflicts with Malaysia and Indonesia seemed to be as Winston Lord put it “eroding the sense of optimism and partnership forged in Seattle”²⁷ at the APEC conference. Thus, the spring of 1994 saw the Clinton Administration beginning to change the course of its policy.

DELINKING TRADE AND HUMAN RIGHTS

The need to establish a new relationship with China suggested that the Clinton Administration had realized the futility of linking American economic interests with the social issue of human rights. China, an increasingly important market for US goods and services with its enormous economic potential provided probably the most important rationale for expansive engagement. In early 1994, the Undersecretary of Commerce for International Trade, Jeffery F Garten and the Department of Commerce identified China as the fastest growing big emerging market’.²⁸ President Clinton was beginning to come to terms with a economically prosperous, militarily strong and nationalistic China.

Since the US depended on an export oriented growth strategy which searched new international markets, China with the world’s largest consumer base remained an important trading destination and partner. Its 12% annual growth rate offered and

²⁷ *ibid.*

²⁸ Scott Goddin, “Big Emerging Markets : China”, US Global Trade Outlook, 1995-2000, 1995, p. 75.

continues to offer extensive investment and trade opportunities for the US. In 1993 and 1994, China was American's fifth largest trading partner. The US maintained a trade deficit of \$ 22.7 billion in 1993 and 29.5 billion in 1994, with US imports growing at 30%.²⁹

Other related factors also influenced changes in policy. For example, as the quality of China's work force improved, American firms set up off shore production sites in keeping with their Asian economic development strategy. Cheap Chinese labour helped produce high quality goods at low prices. Also the relatively cheaper Chinese exports became popular in the United States as personal incomes in the United States had declined. Therefore, stable economic relations with China were identified as essential.

Second, the Clinton Administration soon recognised the need to integrate a strategic power like China. Winston Lord recognized this when he said "we don't want to contain China or isolate it. We want to see China integrated into the world political and economic structure."³⁰ The United States realised that on every issue from the post START arms control to the development of a comprehensive test ban treaty, missile proliferation, regional issues and global environment issues, China would play a leading and influential role.

²⁹ David Zweig, "Clinton and China : Creating a Policy Agenda that works", Current History, September 1993, p. 246.

³⁰ US Department of State Dispatch, "The US and dChina: Working Together toward a Stable Relatoinship", Vol. 6, No. 45, 6 November 1995.

Apart from recognizing the economic and strategic potential of China, several domestic developments also helped President Clinton restructure his policy towards China.

Immediately after President Clinton issued the Executive Order on 28 May 1993, the American business community organized itself to articulate its interests more effectively. Prior to the 1993-94 period, corporate America believed that a Presidential veto by Bush (and 34 votes in the US Senate) would protect their interests on unconditional trade with China. However, with the executive order, they could no longer remain passive. They attempted to influence public opinion, strengthen the emerging centrist coalition in the Congress and find allies within the Administration. Jiang Zemin's visit to the Boeing aircraft production facility and to an American home further demonstrated the linkage between employment and productive relations with China. Representative Jim Mc Dermott (D-Wash), whose district represented a large number of Boeing employees was able to get 106 Congressmen to sign a letter to the President for improving Sino-US ties. Jerry Jasinowski, President of the National Association of Manufacturers constantly sent papers to the President and his advisors stressing the importance of extending trade with China vis-à-vis the American economy.

In April, the US-China Business Council representing more than 400 California based

companies wrote to the President that revocation of the MFN for the PRC would stall \$1.7 billion worth exports from California to China, jeopardizing 35,000 jobs. By the third of week April, Clinton received yet another letter from nearly 800 representatives of large and small businesses, farm organizations, trade associations and consumer goods companies which stated that a non-renewal of the MFN for China would lead to the unemployment of over 180,000 Americans.³¹ On 24 February 1994, at the hearing of the Subcommittee on Trade of the House Committee on Ways and Means chaired by Sam Gibbons, K.R. Williams testified on behalf of the Emergency Committee for American Trade (ECAT). (The ECAT comprises of 65 large US enterprises with annual world wide sales of \$1 trillion.) Williams stated that “ECAT is strongly supportive of MFN trade status for China which could have the largest economy in the 21st Century” and “we strongly believe that human rights can better be achieved through conditions of economic plenty than of economic scarcity”.³² Even within the Administration, economic agencies like the Department of Treasury and the Department of Commerce were determined to articulate their interests more forcefully. In addition, the newly established National Economic Council (NEC) under Robert Rubin sought to define its role along with the National Security Council (NSC), thereby becoming an effective articulator of economic concerns in domestic and foreign affairs. The NEC, further highlighted the importance of China.

³¹ f.n. 12, p. 605-6.

³² US Congress, House, Ways and Means Committee, Subcommittee on Trade, “Statement of the Emergency Committee for American Trade”, Hearings, 103rd Congress 2nd Session 24 February 1994.

The President also gained Congressional support for his new initiative with the formation of a centrist coalition in the Congress on MFN. This amorphous group was of the view that America had multiple interests with respect to China. *They believed that human rights are important but not subordinate to concern on national security, global co-operation and trade.* For them, issuing public ultimatums to Beijing was not an effective approach. A number of Democrats and Republicans joined this group. They included Senators Dole (R), Boren (D), Kerry (D), Banes (D), Bradley (D), and Johnston (D) and Representatives Foley(D), Hamilton (D), Gibbons (D), Matsui (D) McDermott(D), Ackerman (D) and Leach (R).

As Congressional opinion shifted, the executive branch realized that the Congress had accepted delinkage and that there existed more support for delinkage than was previously thought. Several factors contributed to this change. For the first time since 1989, a large number of Congress members visited China. As mentioned earlier, the members realized that China was not totalitarian and the breadth and depth of economic change meant that American leverage had greatly reduced³³.

Finally, a general loss of confidence in the Clinton Administration foreign policy and its China policy, in particular, helped the centrist coalition develop. The House Ways and Means Committee hearings on 24 February 1994 reflected the developing unease with

³³ see, f.n. 9.

the Administration. Within the Administration, too, shortcomings of the US China policy were becoming apparent. Even Clinton aide George Stephanopoulos and Winston Lord urged a complete change in the Administration's strategy towards China.

Elements of the non-governmental foreign policy community too expressed their dissatisfaction with the Administration policy approach. While the Trilateral commission called for a one year renewal and "soft linkage", the Council on Foreign Relations questioned the effectiveness of such a linkage."³⁴

Public opinion polls also revealed that Americans recognised the importance of China to US interests. They were concerned about human rights, but, "they were willing to subordinate these concerns to overarching national security considerations."³⁵

The Chinese dissident community which had earlier identified with Clinton's campaign rhetoric, became divided over the advisability of imposing MFN related sanctions. The American human rights organisations too were looking towards credible alternatives that would convincingly demonstrate American determination. By late April, senior foreign policy officials in the Administration became convinced that revocation of the

³⁴ Yoichi Funabashi, Michel Oksenberg and Heinrich Weiss, An Emerging China in a World of Interdependence, (New York : The Trilateral Commission, May 1990).

³⁵ William Watts, "National Security, A key to extending MFN to China," Update (Honolulu, Hawaii : East West Center), 16th May 1994, p. 1.

status was not a credible alternative.

The international environment too was not supportive of President Clinton policy. In April 1994, the Administration was besieged with problems in Asia, from North Korea's suspected nuclear programme to the US-Japan trade deficit. Taiwan and Singapore too were involved in disputes with the US. European nations used the opportunity to gain contracts and further their trade interests. Chancellor Helmut Kohl visited China in November 1993 and signed with contracts worth nearly \$ 3 billion. In April 1994, visiting French Prime Minister Eduard Balladur was assured that France would become an important supplier of the \$ 1 trillion worth of goods that Beijing anticipated to import by the end of the century³⁶. US relations with Russia were unstable with implications of Russian ultra-nationalism. The situation in Yugoslavia too provided little respite. It almost seemed as though the US maintained uncertain relations with every geopolitical power.

To a certain degree, the strategy adopted by Beijing, too prompted US to reconsider its policy nuances. With the Soviet Union no longer a viable threat, the strategic dependence between the US and China has been clearly reduced. However, China's export oriented industrialization strategy has made it essential for Beijing to retain working relations with the US. Almost 25% of Chinese exports are targeted at the US markets. The economic success of Chinese coastal towns, home to a number of

³⁶ *Washington Post*, 9 April 1994, p. A22

US off shore production sites is based on joint-ventures and foreign investment made by the US. After Hong Kong and Taiwan, the US is the largest investor in China.

In case of a strain in relations, the foreign capital and technology that are available to China would be withdrawn in preference to Thailand, Indonesia or Malaysia. Also, access to American technology is seen by the Chinese as essential for the growth of China's high technology sectors like computers, space vehicles, and electronics. Educational exchanges with the United States is seen as yet another medium for maintaining access to Western and American technology.³⁷

All these factors contributed towards making America extremely important for China. Just when the US adopted its strategy of comprehensive engagement, Beijing adopted its "four nots" policy.³⁸ Having assessed its leverage vis-à-vis the US, China's strategy was to demonstrate to Washington that it would distribute a share of the large Chinese market to US competitors in case of a deterioration in bilateral relations. The Chinese adopted this strategy as it had become clear to the Chinese leaders that economic interests drive American politics. As a result, the Chinese moved to mobilize economically driven segments of the American polity to put effective pressure on the Administration. This basic strategy was put into force by a series of well planned visits by Chinese leaders and officers. By May 1994, visits by Trade Minister, Wu Yi, state

³⁷ f.n. No. 28, p. 249.

³⁸ Quansheng Zhao, "Chinese Foreign Policy in the Post Cold War Era", World Affairs, Volume 159, No. 3, Winter 1996, pp. 114-15, 125-27.

councillor Song Jiang and Chinese Vice Premier Zou Jiahua fostered numerous trade initiatives and infrastructure contracts worth \$ 600 billions were awarded to the US.³⁹

The above domestic and international contexts shaped the strategies and resources for Congressional delinkage of the MFN states from the human right issue. It was evident that an overhaul in China policy was required. President Clinton had been unable to successfully compromise the Democratic Party's alleged concern for social justice and human rights with the need to restore US competitiveness. Clinton's campaign rhetoric and his Administration China policy had virtually collapsed. With minimal criticisms from human rights organizations, President Clinton decision to completely alter the policy approach to China was upheld by most.

With consultation and mobilisation of support especially from Congressmen Hamilton and Foley and Senators Baucus and Nunn, President Clinton ended speculation on MFN tariff treatment for the PRC by delinking human rights from the annual extension of the MFN status for China. In a press brief at the White House on 26 May 1994, he explained that "that the linkage has been constructive during the past year. But I believe, based on our aggressive contacts with the Chinese in the past several months, that we have reached the end of the usefulness of that policy, and it is time to take a new path toward the achievement of our constant objectives. We need to place our

³⁹ Sheila Tefft, "China sends huge Trade Vanguard to pressure the US", Christian Science Monitor, 8 April 1994, p. 9.

relationship into a larger and more productive framework.”⁴⁰ In conjunction with the President’s statement, two additional documents were released by the White House and Department of State. These were, China’s MFN Status : Summary of the report and Recommendations of Secretary of State Warren Christopher and Fact Sheet : China MFN decision. The summary and policy recommendation reflected President Clinton’s decision. It provided a detailed analysis of the degree to which the objectives of the President’s executive order had been achieved. The drawback in current sanctions, and new sanctions that could replace them, were also identified by the report.

The evolution of President Clinton’s policy towards China is believed to reflect the tension between America ideals and interest, between ideology and pragmatism, evident in the debate over China policy since the June 4, 1989, Tiananmen massacre. It seemed that the Administration realised the futility of threatening economic sanctions to gain political purposes. In retrospect, it seemed, that the Clinton Administration had miscalculated its strategy while issuing the 1993 executive order. Specifically,

- It projected an exaggerated view of America’s leverage over China’s human/civil rights behaviour and inflated expectations of how much internal change Beijing would make to preserve its access to the American market.

⁴⁰ “Press conference of the President,” Weekly Compilation of Presidential Documents Vol. 30 No. 2 , Washington DC, 30 May 1994, pp. 1166-69.

- A misreading of the trends in Congressional sentiment.
- An implicit contradiction between the Administration's September 1993 adoption of the strategy of comprehensive engagement and the proposition that the Administration would sacrifice America's economic and security interests to promote its human rights agenda.
- An error in placing economic welfare and national security interests of America against their human rights commitments.
- Wrongly assessing American leverage vis-à-vis the international environment.⁴¹

In 1994, the President made a strategically enduring decision. The Administration's policy change reactivated Congressional interest in pursuing legislation on China in 1994. On August 9, 1994, the House of Representatives considered three measures relating to China's MFN status and enacted the one which essentially codified Presidential initiatives. On the same day, the House defeated a joint resolution (75-356) H.J. 373 (Solomon) which would have disapproved President Clinton recommendation for an MFN extension.

The House also considered two alternative proposals addressing the issue of MFN for China. Both these measures were being offered as substitutes to the US-China Act of 1994 (H.R.4590, introduced by Representative Pelosi, Bonior and Gephardt). One substitute required the Secretary of State to encourage US business in China to evolve a voluntary code of conduct. In addition, the bill also provided for higher tariff rates of

⁴¹ quoted from, f.n. 12, p.599.

goods produced by Chinese government enterprises while protecting MFN for all other products. Representative Hamilton offered the second substitute which essentially codified the President's initiative. This proposal was adopted by the House by a vote of 280 – 152.⁴²

⁴² Heather M. Fleming, "House Upholds Favored Status for China, Rejects Sanctions", Congressional Quarterly and Weekly Report, 13 August 1994, p.2317.

CLINTON'S SECOND TERM : CONTINUITY AND CONSOLIDATION

After the May 1994 decision the Administration moved to concretize other aspects of US- China relations Commerce Secretary Ronald Brown led a large business delegation to China in August 1994 and signed contracts worth \$6 billion. This was followed by similar visit by Energy Secretary Hazel O' Leary. In October, China reaffirmed its commitments to the MTCR and agreed not to export ground to ground MTCR class missiles. It also agreed to cooperate in establishing an international convention to end the production of fissile material. Further it participated in the consensus on unconditional extension of the NPT and pledged to join the CTBT in 1996.⁴³ As a result of these positive trends, on Oct. 4 1994, Chinese foreign minister Qian Qichen signed agreements with the US to lift earlier sanctions. Talks were also held between Defence Secretary William Perry and senior Chinese military and government leaders in Beijing.

China continued to cooperate to solve North Korea's nuclear problem issue and promised support to the US in establishing a Democratically elected government in Cambodia. In March, 1993, the US and China had reached an IPR agreement. The agreement covered measures to shut down factories manufacturing pirated compact discs and videotapes. It also called for the establishment of administrative structures at national, provincial and lower levels to deal with problem relating to enforcement of

⁴³ f.n. 19, p.589.

the IPR agreement. The pharmaceutical sectors benefited the maximum as the Chinese demand for US pharmaceutical and bio-medical technology increased manifold.

The strategic and economic importance of China thus determined the 1995 extension of MFN. June 2, 1995, White House Press Secretary Mike Mc Curry announced that the MFN status for China had been extended by another year.⁴⁴ Anticipating the Presidential extension of the waiver, the Trade subcommittee of the House Ways and Means committee held a hearing on US – China trade relations and renewal of China’s MFN status. The extension of the waiver, without additional conditions, took place on June 2 1995 by Presidential Determination 95-23 (60 H.R. 31047; H.DOC . 104.82).

This was followed by introduction of resolutions disapproving the extension (H.J. Res 96 and S.J. Res 37) H.J. Res 96 was reported adversely (M.Rept. 104-188), considered under a rule (M.Res. 139; H.rept. 104-1940 and tables July 20, 1995, by a vote of the House (321-107).⁴⁵ This action precluded the enactment of the companion measure (S.J.Res. 37). It seems that the Presidential determination was based on the view that renewal would substantially promote Democratic ideals and that broad engagement with China offers the best opportunity to monitor China’s compliance with internationally accepted norms. Despite the renewal Washington continued to stressed

⁴⁴ US Department of State Dispatch, “US Renews MFN Trade Status for China, Statement by White House Press Secretary, Vol.6, No.24, 12 June, 1995, p. 500.

⁴⁵ Congressional Research Service Issue Brief submitted to Vladimir N. Pregelj, “Most - Favored - Nation Status of the People’s Republic of China.” 24 October 1996, p. CRS-3.

on the continued need for improvement of the Chinese human rights record.

IMPLICATIONS OF CLINTON'S POLICY

Though President Clinton extended the MFN status for China in 1995 a number of developments since then reflect a growing unease in US – China relations. Apart from tensions over trade, human rights and nuclear proliferation that have been plaguing relations between the two countries, tensions over Taiwan in mid 1995 dramatically escalated the problem.

The Administration's decision to allow Taiwan's President Lee Teng-hui to visit America for a reunion at his alma mater aggravated the Chinese leadership. President Clinton had taken the decision after intense pressure from the Congress where the Senate and the House had passed unanimous resolutions allowing President Lee to visit the US. The Chinese recognized this move as a de facto recognition of Taiwan's sovereignty and a violation of the One China policy followed by the previous six Administration. They felt that the Americans were aiming to threaten the Chinese government by demanding human rights, instilling Democratic ideals in the Chinese population and thereby creating a situation for the eventual separation of Taiwan and Tibet from China. In a statement before the subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relation committee, Deputy Assistant Secretary of State for East Asian and Pacific Affairs, Kent Wiedmann denied that the US was trying

to create “two Chinas or “one China one Taiwan”. He stressed that “the Administration continued to adhere to recognize the government of the PRC as the sole legal government of China and that Taiwan is a part of China. Abandonment of this fundamental element of our policy would not only endanger our relationship with China but also threaten the security and stability of the whole East Asian region.”⁴⁶ Thus, the Administration’s decision to allow President Lee to visit the US was for a private purpose and did not change basic US policy towards China.

The Chinese leadership however, saw President Lee’s visit as a negative factor in the US China relationship. Beijing adopted a confrontational posture. By mid June 1995, several channels of communication with the United States had been suspended. A number of important officials were recalled. These included the Chinese Ambassador to the US. Visits by important Chinese officials to the United States and vice-versa, were postponed. Beijing also suspended ongoing US-China talks on missile technology control and cooperation on nuclear energy. Chinese officials stated that President Lee’s visit to the US was a violation of the 1979 Joint communiqué which established diplomatic relations with the PRC and the United States. They considered an improvement of relations with Vietnam and imposition of sanctions of IPR violations as directed specifically towards limiting China’s economic and political influence and power in the region.⁴⁷ To display its displeasure over President Lee’s

⁴⁶ Jonathan D. Pollack, “The United States and Asia in 1996 : Under Renovation but Open for Business”, Asian Survey, Vol. XXXVII, No. 1, January 1997, pp. 96-99.

⁴⁷ f.n. 38, pp. 125-27

visit , the PRC conducted a series of military exercises, and missile tests around the Taiwan Strait from mid June 1995 upto early 1996. In March 1996, the US sent two aircraft carriers, the Independence and Nimitz, to Taiwan to demonstrate their concern. China reacted by pushing its war games even closer to Taiwan. These allegations were strongly denied by the Clinton Administration in press conferences, informal bilateral discussions and Congressional hearings.

Apart from confrontation over regional disputes, the United States and China have regularly been involved in trade disputes. Disputes include the large trade deficit, IPR violations, limited market access to the Americans, and the export of prison-labour products. However, the US and China continue to maintain strong trading relations and China remains the sixth largest trading partner of the US.

In 1995, several US firms charged that IPR piracy in China had worsened. The International Intellectual Property Alliance (IIPA) an association of eight US copyright-based industries of, estimated that IPR piracy by Chinese firms had cost US firms \$2.3 billion during 1995.⁴⁸

The IIPA estimated that Chinese piracy of various copyrighted materials in China runs from 50% to 90%. On April 30, 1996, the USTR once again designated China as a

⁴⁸ Congressional Research Service, Issue Brief, submitted by Wayne M. Morrison, "China - US Trade Issues", Washington DC, 25 March 1997, pp. crs- 9-10.

“Priority foreign country” under special 301 for not complying with the 1995 agreement. On May 15, 1996, the USTR published a preliminary list of Chinese products which could face US sanctions amounting to \$2 billion by June 17, 1996 unless effective action was taken. The Chinese took immediate steps to overcome imminent sanctions. As a result, on June 17, 1996, Acting USTR, Charlene Barshefsky announced that the sanctions would not be imposed because of the closure of 15 pirate firms as well a pledge by the Chinese to enforce acute piracy regulation and improve monitoring and verification efforts to ensure licensing of Chinese products. In an effort to improve its trade rules, China reduced its average import tariffs to 23% from the previous 39.5%.⁴⁹ It also promised greater access to IPR related products like motion pictures and recordings.

The Presidential determination 96-29 of May 31, 1996 (H.Doc- 104-223) announced President Clinton’s intention to renew China’s MFN status. The Congress through a series of resolutions S.J. Res. 56, H.J. Res 181 and J.J. 128 moved to disapprove this action. During June 1996, the H.J. Res.182 was defeated on June 27, 1996 by a vote of 141 to 286, precluding any action on companion measure. China’s MFN status thus remains till July 2, 1997.⁵⁰

The Clinton Administration’s decision to delink China’s MFN status from its human

⁴⁹ US Department of State Despatch, “US - China Relationship”, Vol.7 No.25, 17 June 1996, pp. 324-25.

⁵⁰ f.n. 45, p. crs- 3.

rights record marked the President's recognition of the importance of economic policy in the conduct of foreign policy. With the establishment of a policy of comprehensive engagement, the Administration moved to concretise US-China relations in areas of trade, nuclear proliferation and regional security.

CHAPTER IV

DOMESTIC DYNAMICS AND THE MFN DIMENSION

The chapter provides a brief look at the contours of Congressional responsibility, impact of other domestic influences both direct and indirect- like the lobbies and the industry. Inferring of either support or antipathy towards China which would impact on policy, would also recount an assessment of the economic and social costs of the decision taken. Thus, the attempt in this chapter would be to link the responses as found in the US policy with the political responses of arriving at such a policy.

In recent times, United States policy towards China has been overwhelmingly dominated by debates on China's Most-Favoured-Nation (MFN) status. Even though the relationship since the Tiananmen massacre has been complicated by issues ranging from human rights to nuclear proliferation, the continued threat to use economic leverage through withdrawal of MFN status to gain concessions from China reflects the increased focus on US-China economic ties. Evidence suggests that, as with Japan, trade and economics will dominate the relationship.¹ The importance of the MFN issue in present relations , warrants a detailed appraisal of the trading relationship.

US trade with China rose rapidly after the two nations established diplomatic relations

¹ Greg Mastel and Andrew Z. Szamosszegi, "China's growing Trade Surplus : Why It Matters", The Washington Quarterly, Spring 1997, p. 201.

in January 1979. A bilateral trade agreement was signed in July 1979 with MFN status granted in 1980. Total trade between the two nations rose from \$ 4.8 billion in 1980 to \$63.5 billion in 1996, making China the 4th largest trading partner of the US.²

Despite the many issues on the US-China bilateral agenda, trade issues are seen to have a significant impact on the US economy and employment. In 1996, the US exported \$12 billion of merchandise to China and imported goods worth \$ 51.5 billion.³ Currently, American trade with China supports more than 200,000 American high – wage jobs apart from additional employment generation in US ports, retail establishments and consumer goods companies.⁴

China's economic reforms and open investment policies begun in 1978, have contributed to a surge in economic growth. Between 1979 and 1995, China's real gross domestic product (GDP) had quadrupled. In 1996, the GDP grew by 9.7% and is estimated to rise by 10.2% in 1997.⁵ According to International Monetary Fund estimates, China is the world's third largest economy, after the US and Japan, and will be the largest economy in the 21st century. China will therefore be a significant player in the global market place. The Chinese government has extensive plans to upgrade

² Congressional Research Service, Issue Brief submitted by Wayne M. Morrisson, "China-US Trade Issues", Washington DC, 25 March, 1997. p. crs-1.

³ *ibid*, p. crs-2.

⁴ Stephen J. Yates, "Why Renewing MFN for China Serves U.S. Interests", Asian Studies Center Background, No. 141., The Heritage Foundation, June 25, 1996, p.5.

⁵ f.n. 2, p. crs-5.

and modernize its economy. Infrastructure development, in particular, has been made a priority area where foreign firms will be allowed to participate in a wide variety of projects. The World Bank has calculated that China will require investments of \$750 billion in industrial infrastructure with priority development sectors like energy, transportation and telecommunications. The US advantage in high technology products would help it gain a number of contracts in China. The US and Foreign Commercial Service (US & FCS) have identified the top five commercial prospects for US firms in China as aircraft and parts, electric power systems, computers and peripherals, telecommunications equipment and automotive parts and service equipment.⁶

Apart from the positive prospects of US-China economic-relationship, current trading relations too provide a significant basis for a stable partnership. China has become an increasingly important market for several US products. The US Commerce Department has designated China at the top of the "Big Emerging Markets"⁷ offering the largest potential as a market for US goods and services. This potential however remains untapped, to a large extent due to Chinese trade barriers. In 1996, the US exported to China \$12 billion worth of goods to China which included cotton, fats and oils, manmade staple fibres, fertilizer, aircraft, wood pulp and leather.⁸ On the other hand, the United States continued to be a large market for Chinese goods. In 1996, US

⁶ f.n. 4, p. 5.

⁷ Scott Godin, "Emerging Markets - China", US Global : Trade Outlook 1995-2000, 1995, p. 73.

⁸ f.n. 2, p. crs - 3.

imports from China stood at \$51.5 billion. The low – cost Chinese products possessed a large consumer base as personal incomes in the US decline. A large number of people shifted from high paying manufacturing jobs to lower paying service jobs. The people earning these decreased salaries were only able to purchase low-cost Chinese – made household appliances, to maintain a reasonable standard of living.

Since 1985, China has been gaining larger shares of US imports in light manufactures which include footwear, travel bags, plumbing fixtures apparel/clothing. It has also been increasing its presence in high technology industries such as photographic equipment and electrical machinery telecom equipment. Most of these gains have been made on the basis of decline of in market shares of South Korean, Taiwan and Japan.⁹

However, present levels reflect that, US imports from China far exceed US exports to China. This had led to a large trade deficit which in 1996 stood at \$39.5 billion. The unusually large trade deficit had therefore become an irritant in US-China relations.

US AND CHINA’S MFN STATUS

Growth prospects for the US-China economic relationship reflect a positive trend. The basis for it lies in the grant of the MFN status to China in 1980. As explained earlier,

⁹ Congressional Research Service, Issue Brief , submitted by Dick K. Nanto, “The U.S. Trade Deficit in Manufactures : The Rise of China and NAFTA”, Washington DC, 12 February 1997, p. crs - 10.

the MFN status in international trade relations, while suggesting special and exclusive privileges granted to one country, means in reality quite the opposite; it simply implies the extension by a country of any concessions, privileges or immunities granted in a trade agreement to one country, as to all countries to which it accords MFN treatment. The term “most favoured – nation” is often used interchangeably with the term “nondiscriminatory”.¹⁰

The principal benefit a country gains from being accorded MFN status by another country is that the latter’s imports from the former are dutied at concessional rates, often referred to as MFN rates rather than at higher full rates. The MFN rates are tariff reductions agreed to by individual countries in bilateral or multilateral negotiations, and are by virtue of MFN treatment extended to all countries to which a tariff reducing country has accorded MFN status, whether or not equivalent, or even any, concessions are reciprocally received from them.

In the United States, there are no specific procedures for extending MFN status to a country, except when restoring the status to non-market economy. All countries apart from those to which MFN treatment is specifically denied by law or Presidential action have MFN status.

Until June 1989, successive Presidents regularly submitted to the Congress their annual

¹⁰ Congressional Research Service, Issue Brief , submitted by Wayne M. Morrison, Vladimir N. Pregelj, Kerry Dumbaugh, Jeanne Grimmett, “Most Favored-Nation Status and China : History, Current Law, Economic and Political Considerations, and Alternative Approaches”, Washington DC, 19 November 1996, p. crs - 3.

recommendations for renewal of China's MFN status, which the Congress approved without adverse reactions in the form of disapproval resolutions.

The Tiananmen incident of June 1989 shattered the consensus on the MFN status for the PRC. The Congress became more assertive in directing US policy towards China and consistently challenged the Bush Administration's conciliatory approach. The Clinton Administration's initial attempts to link the human rights issue to MFN proved futile and in 1994 led to the delinkage of the two issues. However, every year since 1990, Congressional opposition to annual renewals of China's waiver and MFN status were reflected in the disapproval resolutions introduced in the House and the Senate. The Tiananmen square massacre and other violations of broader human rights thus refocused Congressional opposition from the narrow context of freedom of emigration to one of human rights in general. The Tiananmen square incident and China's overall disregard for human rights as well as actions considered as endangering the United States national security triggered not only consistent Congressional moves to disapprove the annual renewals of China's waiver but also led to the introduction of a large number of measures specifically adverse to China's MFN status. These measures if passed would require an outright repeal of the status or subject it to a variety of additional conditions in the area of human rights.

In the years since China regained its MFN status in trade with the US, all legislative attempts at revoking it or subjecting it to additional conditions have been unsuccessful.

While the Congress has consistently favoured the termination or conditionality of China's MFN status, the White House with the exception of the 1993 executive order has maintained the status without any conditions other than those of the freedom of emigration amendment.

CONGRESSIONAL RESPONSE

The normalization of relations between the United States and China in 1980 was accompanied by a parallel support from the US Congress to preserve strategic interests and improve trade relations with China. The Congress played a largely subordinate role in formulating China policy and was supportive of various diplomatic initiatives towards Beijing. A Chinese study showed that one year after the resumption of diplomatic relations, the number of cases of Congressional criticism came from a limited number of ultra conservatives whose perceptions were still clouded by an anti-Communist ideology¹¹. Therefore, Congressional action on China's MFN status was not very substantial before the Tiananmen incident. In 1982, H. Reso. died in the Ways and Means Committee and in 1983 H. Res. 258 was indefinitely postponed by the House. No disapproval resolutions were introduced from 1984 to 1988.¹² Even in 1989, though the Presidential recommendation for China's MFN status was made three days before the incident, no resolution was adopted in the Congress. The

¹¹ "US Congress and Ten Year after the Establishment of Sino-US Relations", Chinese Diplomacy, 6 December 1989, p. 36.

¹² The US Congress and Sino-US Relations, Beijing Review, 15-21 May 1989, p. 33.

sanctions legislation too did not, contain any measures on China's MFN status. Initially, the Congress favourably received the first and the second batch of sanctions introduced by the Bush Administration. Some Congressional opinion did call for more stringent action which included the recall of the US ambassador, suspension of commercial incentives under the Trade Development Programs and revocation of China's MFN status. The majority however, approved of the Administration's actions. Public opinion too reflected this assessment. Sixty seven percent in a Gallup poll and fifty four percent in an ABC News – Washington Post poll supported President Bush's policy towards China, Congressional and public opinion did however stress imposition of more extensive sanctions in China if rapid and decisive results were not obtained.¹³ 1990 saw a shift in Congressional attitude towards China. The Bush Administration's low profile stance on China's violation of human rights, rejecting the Congressional proposal to impose economic sanctions against China and replacing the Pelosi bill with an executive order that offered protection to Chinese students, led to a divide over China policy between the executive and the legislature. The Congress adopted an assertive stance and challenged the President's domination of China policy. Frustrated by its failure to compel the Bush Administration to take a more forceful stance on China's violation of human rights, the Congress annually confronted the Administration with stringent conditions for the extension of China's MFN status which would jeopardize trade between the two countries and consequentially overall US relations with China.¹⁴

¹³ *New York Times*, 14 June 1989, p.A77.

¹⁴ David S. Cloud, "Mitchell Struggling For Votes to Redirect MFN for China", Congressional

China's critics and supporters of withdrawal of its MFN status stressed that on issue after issue, the Chinese government had flouted the demands of the United States and the international community. Discrepancies and violations in areas of trade, human rights, weapons proliferation, and Taiwan's sovereignty were being consistently carried out by the Chinese.

The critics insisted that it was the size of the Chinese market that has blinded many lawmakers to Beijing's policies. "Its the power of the almighty dollar",¹⁵ according to Sen. Russell D. Feingold (D-Wis). He was supported by Rep. Nancy Pelosi (D-Calif.) Dana Rohrabacher (R-Calif.) Gerald B.H. Soloman (R-NY), Pete Stark (R-Calif.) favoured of withholding China's MFN states until it improves its human rights record.

Proponents of extending MFN status to China believe that China was too economically and strategically important to isolate. Senator Dianne Feinstein (D-Calif.), an ardent supporter of MFN status for China believes that "if MFN is denied, it will be seen as a total break in the Chinese American relationship. It will cut off our ability to develop the kind of relationship we need to move China into its rightful position as a stable, sane, safe leader".¹⁶ Rep. Robert T. Matsui (D-Calif.) too argued that "pulling out of MFN would amount to writing off 22 percent of the world's population i.e. 1.2 billion

Quarterly and Weekly Report, 20 July 1991, p.1971.

¹⁵ Carroll J. Doherty, "Once Again, China's Critics Plan to go Down Fighting", Congressional Quarterly Weekly Report, 22 June 1996, p. 1770.

¹⁶ *ibid*, p. 1772.

people”.¹⁷ Proponents of MFN extension argued that any negative steps by the US government would lead to retaliatory measures by the Chinese government. This could include denial of market access, higher duties on US exports to China, redirect US market share in China to other competitors from Europe, Japan and Asia and a deterioration in overall diplomatic relations. According to Sen. Feinstein, “any heavy handed punishment will stop incremental progress, start a trade war, freeze the Chinese leadership into an adversarial stance and eliminate the subtle western influence that comes with open trade.”¹⁸

The debate in the Congress over the MFN issue reflected a divide on the basis of ideology and not on political beliefs. The Republicans with their close links to business were particularly sensitive to the argument that ending MFN will effectively freeze the United States out of China. Generally, Republicans outside the narrow segment of the party represented by commentator Patrick J. Buchanan, supported free trade, a major tenet of Republican economic philosophy.

Democrats too were equally divided over the issue. During the 1992 Presidential campaign, Clinton joined many Congressional Democrats in advocating conditions on trade with China. While the President reversed his stance to support unrestricted MFN status, several members of the Democratic party including House Minority leader Richard A. Gephardt continued to support revocation of China’s MFN status.

¹⁷ *ibid*, p. 1773.

¹⁸ *ibid*.

Congressional action to disapprove the renewal of China's MFN status had been consistent since 1990, but not successful.

- In 1990, several identical disapproval resolutions were introduced by Rep. Donald Pease (D-Ohio) and Rep. Nancy Pelosi (D – Calif.) H.R. 4939 (101st Congress), which would condition the renewal of the Jackson-Vanik waiver in the following year (1991) primarily on progress made in human rights. The bill was passed by a vote of 384-30 by the House but was not voted upon by the Senate.¹⁹
- In 1991, H.R. 2212(102 nd Congress) was introduced . If passed it would prohibit the renewal of China's waiver in 1992 unless certain specific aspects of human rights, international security and trade relations were met. The bill was passed with large majorities by both Houses, but vetoed by the President, and the veto was upheld by the Senate.²⁰
- H.R. 5318 (102nd Congress) which contained provisions very similar to that of H.R. 2212 would restrict MFN treatment to products of Chinese state-owned enterprises. The bill was passed in the House by a very large majority,

¹⁹ "Efforts At Hardline On China Thwarted", Congressional Quarterly Almanac, 1990, p.764.

²⁰ David S. Cloud, "Bush Democrats Renew battle Over MFN Status For China", Congressional Quarterly and Weekly Report, 6 June 1992, p. 1594.

and by unanimous consent in the Senate. It was once again vetoed by the President and the veto was upheld by the Senate.²¹

- In the 103rd Congress, H.R. 1835 introduced by Rep. Pelosi and an identical Senate legislation S.(806) by Senator Mitchell would subject the mid-1994 extension of China's MFN status to additional conditions applicable only to imports of products of Chinese state owned enterprises. Consideration of this legislation was discontinued after President Clinton issued the May 28, 1993 Executive Order 12850 linking the 1994 extension of China's MFN waiver with China's human rights record. The principal sponsors of the legislation too expressed satisfaction with the Presidential order and considered further action unnecessary.²²
- When in 1994, President Clinton delinked China's MFN status from the issue of human rights, H.R. 4590 (103rd Congress) was introduced. It contained a complex set of provisions with respect to China's MFN status. The key provision called for a joint resolution disapproving the annual renewal of China's waiver with respect to imports of products of State-owned enterprises. If the 1994 waiver renewal did take effect the bill would further prohibit its

²¹ John R. Cranford, "House Committee Tries Anew To Press China For Reform", Congressional Quarterly and Weekly Report, 4 July 1992, p. 1933.

²² David S. Cloud, "Congress White House agree China has yet to Earn MFN", Congressional Quarterly and Weekly Report, 19 March 1994, p. 658.

application to goods produced or traded by the Chinese army and defence industrial trading companies. The original language of H.R. 4590 was, however, replaced in the House floor vote by language merely expressing Congressional sentiment with respect to various aspects of China's policy, without any operative connection to the MFN status.²³

- In the 1st session of the 104th Congress, a joint resolution to disapprove China's MFN status (H.J. 96) was tabled in the House thereby precluding any further disapproval action. In the second session, H.J. Res.182 was defeated in the House. Other resolutions with respect to China's MFN status include demand for suspension of status till Taiwan is admitted to the WTO.²⁴

In the years since China conditionally received its MFN status in trade with the United States, all legislative attempts at revoking it or subjecting it to additional conditions have been unsuccessful. The Congress has favoured termination or conditionality to China's status whereas the White House has refrained from such action except in 1993 through the Executive Order. Within the Congress, the House has tended to oppose annual extensions of the MFN status more frequently and strongly than the Senate. This is evident from the significantly larger number of adverse measures introduced in the House than in the Senate. During the Bush Administration, members of the

²³ Heather M. Fleming, "House Upholds Favored status For China", Congressional Quaterly and Weekly Report, 13 August 1994, p. 2317.

²⁴ "House Avoids China Trade Sanctions", Congressional Quaterly Almanac, 1995, pp. 2-43-44.

Congress could cast a symbolic vote against MFN extension which would get nullified by the Presidential veto, thereby avoiding economic warfare. A vote against MFN then became a vote for human rights. However, when Bill Clinton assumed office with a background of rhetoric against China, the House could not depend on such a veto. Members then began to vote more for the economy than for human rights.²⁵

Given the importance of the MFN issue, various viewpoints have emerged with regard to the viability of conditioning, annual renewals and other aspects of the process. For example, Several commentators have offered alternatives to Title IV of the Trade Act of 1974. This act authorizes the President of the US to restore MFN status of a nonmarket economy(NME) country under (a) compliance with the provisions of the Jackson Vanik amendment and (b) conclusion and maintenance of a bilateral trade agreement between the NME and the US. Some members are of the view that the United States under certain conditions could extend permanent MFN status to China. The Congress may consider legislative alternatives to the current process of extending MFN treatment to various countries. The broadest alternatives to Title IV would simply be to repeal it and to grant unconditional MFN tariff treatment to all US trading partners through section 126 of the Trade Act of 1974. This approach would eliminate the requirement for yearly consideration of MFN treatment for Title IV countries and for a bilateral commercial agreement with the United States. Alternatively, the Congress could make Title IV inapplicable to WTO members and direct that it is not applicable once non-member countries join the WTO. A modified repeal of Title IV

²⁵ f.n. 15,. 1772.

could also be considered in which the Jackson-Vanik amendment would be repealed, making current Title IV countries subject only to the requirement that MFN be extended pursuant to a bilateral commercial agreement approved by Congress. The Congress could also amend Title IV by continuing its current requirements but authorizing the President to determine that Title IV no longer applies, extend MFN treatment to the country and provide that the country will be permanently removed from Title IV once the grant of MFN treatment goes into effect. If Title IV is to be retained in full, multiple-year waivers under the Jackson-Vanik amendment could be considered, instead of yearly extensions.²⁶

In the 104th Congress, Representative Doug Bereuter proposed a resolution, H.R. 4289, which would significantly change US MFN policy. The Fair Trade Opportunities Act, would eliminate Title IV of the 1974 Trade Act and would give the President the authority to apply pre-Uruguay Round (1974) tariff rates on imports from countries which are not WTO members and are non market economies which maintain restrictions on emigration.²⁷

Various alternatives to the US MFN policy have therefore been suggested. Some members even demand extension of permanent MFN status to China. However, the majority in the Congress consider the annual debate over China's MFN status as an

²⁶ f.n. 10, pp. crs-29-30.

²⁷ Carroll J. Doherty, "Focus of China Trade Debate Shifts to Capitol Hill", Congressional Quarterly and Weekly Report, 25 May 1996, p.1475.

reflection of Congressional influence over US foreign policy. Year after year, the debate continues.

The Tiananmen incident increased Congressional antipathy towards China, as evidenced by its strong retaliatory resolutions introduced during the two Administrations. It put the human rights issue onto the Congressional agenda and thereby produced increased Congressional challenges to the President's China policy. For the first time since normalization of relations a deep divide was witnessed between the Congress and the Executive. In the view of analysts, the Congress continues to favour revocation and considers the debates on the issue are a plausible method of controlling foreign policy.²⁸

Despite these critics, China lobbyists have largely been successful in influencing Washington to extend China the MFN status, unconditionally. It is believed that the backing from business consortiums and the PRC itself has helped the lobbyists make a considerable impact.

LOBBIES:

Interest groups have played an equally effective role in influencing US relations towards China. Lobbying, as a mode of influencing Congressional and public opinion is

²⁸ Taifa Yu, "The Conduct of Post - Tiananmen US China Policy : Domestic Constraints, Systemic Change and Value Incompatibility", Asian Affairs, Vol. 33(3), March 1993, p. 237.

highly prevalent in the United States. In fact, it has been said that, to a large extent, trade lobbyists influence government policy on international trade. In the US, they represent the multinational corporations, foreign owned companies, foreign governments and other special interests. With the increase in the US trade deficit, the number of trade lobbyists too has risen dramatically. In 1970, the United States had a trade surplus with Canada (\$2 billion) Japan (\$.2 billion) and Germany (\$386 million). There was limited trade with France, Mexico, Singapore, South Korea, Taiwan, the United Kingdom and China. In just that year, 157 foreign agents were registered to lobby the US government on behalf of the above ten countries. In 1995, there are 554 such lobbies and the trade deficit has increased from \$ 2 billion to \$ 161 billion.²⁹ The PRC has been able to use this tool very effectively to influence and achieve trading concessions. China along with of a number of American multinationals with interests in the PRC have created a powerful lobby which is able to preserve China's MFN status, each year, despite violations in areas of trade, human rights, nuclear proliferation and arm sales.

General Motors and Ford are among China's most ardent supporters. Like other American multinationals, they see China both as an expanding market for US goods and a potential manufacturing site where high US labour costs could be replaced by low-cost Chinese labour. Therefore, they stress that China's goods need to enter the US market at low costs. Proponents of trade with China are of the belief that China, with

²⁹ Donald L. Barlett and James B. Steele, "Most Favored Lobby : China gets what it wants the old - Fashioned Way", The Washington Monthly, December 1996, p.18.

its population of 1.2 billion will provide the largest consumer market where US MNCs must have a base. According to AT&T Chairman, Robert E. Allen, "China is becoming the largest market in the world for almost any product you can name-airplanes, construction equipment, consumer products and virtually everything else that's produced and marketed."³⁰

Currently, Chinese exports to the US are much larger than their imports of US products. Although cheaper Chinese made goods give consumers a price break, the erosion of high wage manufacturing jobs aggravated by imports is having a negative effect on wages and the standard of living of middle income Americans. It is only the MNCs that benefit because they can export goods back to the United States from their overseas production facilities. When President Clinton issued an Executive Order linking human rights to extension of MFN status for China in 1994, the China lobby undertook a large scale exercise to influence Washington positively. Multinationals like AT&T, General Electric, Chrysler, Kodak, Boeing, Philip Morris raised large sums of money to lobby effectively. A number of briefing sessions were conducted. Corporate executives were brought to Capitol Hill to personally lobby law makers. Letter writing campaigns and studies were undertaken to display the negative effect on the American economy of revoking China's MFN status. The Committee of 100 and the US-China Business Council which represent over 300 companies with business interests in China took active interest in the campaign. Pressure was also brought to bear at a House

³⁰ *ibid*, p. 19.

Ways and Means subcommittee hearing in 1994 when speakers warned of the devastating consequences of MFN revocation.

For instance, the Mattel (a US toy manufacturer) Vice President, Fermin Cuza too outlined the drawbacks on MFN withdrawal. He argued that higher import duties would have a severe impact on American importers, some of whom would be forced out of business. Higher tariffs he added would “raise retail prices by approximately 25% and risk 32,000 US jobs in the US toy industry.”³¹ In 1995-1996, the 300 businesses represented by the US-China Business Council was said to have contributed more than \$ 55 million to lobbying campaigns. Philip Morris topped the list with \$ 4 million, followed by AT&T at \$ 2.6 million, Federal Express Corporation \$ 2.1 million, Bell South Corporation \$ 1.5 million. Other major contributors included Lockheed Martin, Ameritech Corp., SBC Comm. Inc., Chevron Corp. Companies concerned ranged from Joseph E. Seagram & Sons, a liquor producer, to Boeing, an aircraft producer.³² To prevent the Congress from reversing China’s MFN status, the China lobbyists have embarked upon an aggressive lobbying campaign extending beyond Washington to other states.

Clearly, US companies claimed to have a large stake in China and vice versa. As one report put it, the Chinese farmers used US-produced fertilizer, Chinese companies used

³¹ *ibid*, p. 20.

³² Jodi Enda and Josh Goldstein, “With big Stake in China, US firms are Beijing ally”, *The Philadelphia Inquirer*, 19 May 1997, p. 2.

US manufactured boilers and Chinese doctors used US made surgical instruments. In 1996, US exports to China stood at \$ 12 billion. In exchange, the US imported \$ 51.5 billion in goods from China, and thereby created a trade deficit of almost \$ 40 billion. Experts argue that “US companies that have invested heavily in China are very vulnerable to Chinese pressure”³³ and therefore must preserve their interests. Boeing for example has nearly 150,000 employees who rely on trade with China. In the next 20 years, China is expected to spend more than \$ 120 billion for aircraft purchases. Boeing hopes to gain most of the orders.

Trade lobbyists have argued that any revocation of MFN will lead to serious retaliatory measures from the Chinese. They believe that engagement will yield better results by exporting western culture to China than withdrawal. In economic terms, it was stated about 170,000 US jobs are dependent on exports to China and revocation would hurt each one of them.³⁴

In addition to lobbying by US multinationals, China has its own representatives. In Washington, the offices of Cleveland and Jones, Day Reavis and Rogue represents the Chinese Embassy. The New York law firm of former President Richard M. Nixon, Mudge Rose Guthrie Alexander and Ferdon represents the China National Import/Export Corporation. Rollins International another lobbying firm is registered as

³³ Richard Bernstein and Ross H. Munro, *The Coming Conflict With China*, (Knopf, 1997).

³⁴ f.n. 32, p.2.

the foreign agent for the China Chamber of International Commerce and the municipality of Nanjing, China. No fewer than 20 law firms and consultants are currently registered as foreign agents for China.³⁵

Confronting this powerful lobby are groups like the United Autoworkers (UAW). They claimed that the employment figures presented by the trade lobbyists demanding extension are inflated. Other groups like the Christian Coalition and the Conservative family Research Council were of the view that the US was not using its leverage adequately to end human rights violations in China. Ralph Reed, the executive director of the Christian Coalition felt that though the US businesses have legitimate interests, they should not overshadow human rights issues. George Bayer, another critic of the China lobby considered the trade lobbies to be an “odd alliance”³⁶ between American capitalists and Chinese communists.

Opposition to a US termination of China’s MFN status by various US Presidents, some members of the Congress has been based primarily on the negative consequences such an action would produce on US-China relations. Trade lobbyists furthered this approach by claiming increase in the price of goods, unemployment and an economic slow down. The negative economic consequences of the MFN withdrawal on the US and China were brought out through studies conducted for some of the prominent lobbying agencies.

³⁵ f.n. 29, p. 20.

³⁶ f.n. 32, p. 4.

ECONOMIC COSTS OF MFN WITHDRAWAL

The immediate effect of withdrawal of China's MFN is stated to be a substantial increase in the applicable rates and amounts of customs duties assessed on most US imports from China. Imports from China would be assessed on the basis of tariffs in "Column 2" (non-MFN) rates of duty in the US Harmonized Tariff schedule (HTS, hereafter), which is generally significantly, higher than those under "Column 1" (MFN treatment). Ultimately, these higher tariffs would result in higher prices for US consumers of the affected items and subsequently a decrease in US imports of various Chinese products. Additionally, a termination of China's MFN status would ban US Export-Import Bank from financing US exports to China. A similar retaliation could be expected from China in the area of exports and investment in within the country.³⁷

EFFECT ON CHINESE IMPORTS TO THE US

In a report for the Congress, one estimate brought out the economic costs of withdrawing China's MFN status. According to it, withdrawing China's MFN status would increase the average interest cost of US imports from China by about one third and the cost of numerous individual articles by as much as two thirds because Chinese imports would be assessed at full rates rather than MFN rates. Without MFN

³⁷ f.n. 10, p. crs-17.

treatment, the rates of duty on dutiable imports would be automatically increased, often ten-fold and could be as high as 70% or even 90% ad valorem. Many items that are currently duty free, would become dutiable often at very high rates. The columns in Table 1(Appendix) shows for each tariff item,

- the customs value of imports (the base used in determining the duty assessed on an ad valorem basis)
- the C.I.F. (cost, insurance and freight) value i.e. the total cost of an article at a US port of entry
- the applicable MFN and full duty rates
- the calculated amount of the duty under either tariff treatment
- the entered value the imports (the sum of the C.I.F. value and the applicable duty amount)
- the percentage difference in the entered value of imports dutied at MFN and full rates (that is, the relative cost- effect of the withdrawal of the MFN status at the point of importation).

The value of imports subject to duty according to Table 1(see Appendix) of the study would be increased and their duty free portion would be reduced. As a result, the total amount of calculated duty would increase eight fold which would raise the average duty rate on all listed imports to 44.8% and on listed dutiable imports to 45.1%. The cost of these imports to the importer would also increase by 35.3% and the share of its

duty component would reach 29.7%.

Extrapolating this data to total 1995 US imports from China \$45,370 million customs value; \$48,318.3 million C.I.F. value, would result in their total entered value under MFN rates of \$ 50.5 billion and under full rates of \$ 68.4 billion, an increase of \$ 17.9 billion (35.4%).

The above calculations were based on the assumption that under full rates, no geographic shifting of imports from China would take place.³⁸

Another study conducted by the International and Business Research Corporation (IBERC) in 1996 estimated the increase in total dollar cost of withdrawing China's MFN status to the consumers of articles imported from China. According to the report, the precise economic affects of higher US (non-MFN) tariffs on various Chinese products entering the US market are difficult to ascertain, largely because of the inability to determine who would bear the ultimate costs of higher tariffs and how such costs would effect the quantity of Chinese – made products supplied and demanded. In the US when a Chinese produce enters the US consumption channels, the US importers pays the tariff on the product, and not the Chinese exporter. The product is sold and resold to various buyers in the United States before it is ultimately

³⁸ Congressional Research Service, Issue Brief submitted by Vladimir N. Pregelj, "Direct Cost - Effect of Withdrawing China's Most - Favored - Nations Status", Washington DC, 13 November 1996, pp. crs -2.

purchased by US consumers.

The study projected the cost to consumers of a termination of China's MFN status using three different assumptions.

- \$ 30 -32 billion, if 100% of the tariff increases on Chinese imports are passed to US consumers,
- \$ 27-29 billion of 75% of the tariff increases are passed to US consumers,
- \$ 22-25 billion, if 50% of tariff increase are passed to US consumers and the remainder absorbed by the importer and/or distributor.

The study concluded that it would be reasonable to assume that about 75% of the tariff increases would be passed to consumers and the remaining 25% to importers/exporters, resulting in an added cost of about \$ 27-29 billion to consumers. In all the above three situations however, the greatest losses would be in the footwear, toys, dolls and apparel categories. This change, even if moderated, would disproportionately affect low-income consumers.³⁹

In the long run, consumer losses resulting from higher costs of Chinese imports would decrease when such products are substituted by imports from other countries that are

³⁹ IBERC Study, The Cost to the US Economy That would Result From the Removal of China's MFN Status", June 1996, p. 8.

accorded MFN treatment by the US.

Another change that was speculated upon was the effect of higher prices of Chinese products which might result in greater US production of some affected products (like textiles and shoes) which might boost domestic employment. On the other hand, higher prices would lower US purchasing power, decrease demand for other products, including those made domestically. Thus, a decrease in consumer demand could result in a reduction in employment in other US domestic industries. In addition, higher prices of Chinese products used as inputs by US firms could make them internationally less competitive.⁴⁰

Another set of factors that would have a role to play would be the level of US exports and investments into China.

US EXPORTS AND INVESTMENT IN CHINA

In 1996, the US exported goods worth \$ 12.0 billion to China. The Commerce Department estimated that every \$ 1 billion in US exports supported approximately 15,000 jobs. Therefore in 1996, US exports to China supported approximately 1,80,000 jobs. Though a total cut off of US exports to China would have a very small overall effect on the US economy (US exports to China account for only 2.0% of total

⁴⁰ f.n. 10, p. crs - 20.

US exports to the world, and for 0.17% of US gross domestic product), certain US industrial and agricultural sectors may sustain a negative impact. Sectors that would be hit by Chinese retaliation include fertilizers, aircraft, cereals, textile fibres and telecommunication equipment.⁴¹

Currently, US exports to the Chinese market are small. However, China is one of the fastest growing markets for US exporters. US exports to China have increased by more than 145% between 1990 and 1996. It is believed that China will be a significant market for US products in the future. As explained earlier, the Chinese government plans to spend \$ 250 billion annually on infrastructure projects till the end of the decade. If the United States maintains its current market share in sectors like aircraft, it would be assured of contracts in the future.

The fear in most circles is, that, if the MFN status is withdrawn, China may restrict US investment and business activities in China. From 1979-1995, actual US foreign direct investment (FDI) in China was estimated at \$10.7 billion or 7.8% of total FDI in China. Of this amount, 72% was invested between 1993 and 1995. Presently, The US is the 4th largest investor in China after Hong Kong, Macao and Taiwan. FDI has been an essential medium for gaining access to China's markets. Any restrictions on US investment and business activities in China would reduce US exports to China. Finally, the United States maintains trade agreements with China regarding market access

⁴¹ *ibid*, p. crs- 21.

(October 1992) and intellectual property rights (February 1995 and June 1996). A Chinese denouncement of these agreements could lead to additional restrictions on US exports to China and a resumption of massive Chinese production and export of pirated LDs, CDs and CD-ROM's.

IMPACT ON CHINA:

The effects on China's economy due to the termination of its MFN status by the United States, has not been precisely measured. Some analysts argued that in the short term, the effects could be of some significance. In recent years, Chinese exports to the United States have grown considerably and stood at \$ 51.5 billion in 1996. According to a 1993 World Bank study of China's top 15 exports to the United States in 1990, the effect of the withdrawal would be 'disastrous'. The World Bank projected that US imports from China of such products as shellfish, various textile and apparel products, footwear, certain electronic equipment, watches, toys and games, travel bags and handbags would be virtually eliminated.⁴²

Another study also calculated the reduction in Chinese exports to the US by the MFN withdrawal. According to it, the current \$ 51.5 billion figure would be drastically reduced to \$ 18 billion – \$ 26 billion. It estimated that this would reduce China's exports to the United States by 39.5% – 57.0%. In the short-term, the termination of

⁴² World Bank, "China Foreign Trade Reform: Meeting the challenges of the 1990's", 18 June 1993, pp. 157- 8.

the status would disrupt the functioning of several export oriented industries in China, especially those in the coastal regions of Gaungdong and Fujian, which are said to be at the heart of the economic reforms process in China.⁴³ It would also lead to severe unemployment, which may encourage China to disinvest from its current process of reform to one of isolation and repression.

Apart from producing a sizeable impact on the China, the effect of such a measure would also be felt in the neighbouring economies of Hong Kong and Taiwan which have maintained close trading networks with China and the US.

TH-6541

⁴³ f.n. 39, p. 9.

EFFECTS ON HONG KONG AND TAIWAN

Hong Kong has been the largest investor in China accounting for 62% of total FDI (actuals) since 1979. Most of its investments have been concentrated in the Guangdong province, in facilities that produce for export, mainly to the United States.

A sizable share of the products manufactured by these facilities are exported to Hong Kong for further processing before being re-exported to other destinations like the United States. This activity supports several industries in Hong Kong by providing in spite of additional processing, packaging and services (banking, insurance, consulting) Trade officials estimate that in 1995, Hong Kong handled 60% of Chinese exports to United States and 42% of US exports to China. It is estimated that a US termination of China's MFN status would result in losses of \$ 30 billion in trade \$ 4.4 billion in income and 89,000 jobs.⁴⁴

In case of Taiwan, too, revocation of the MFN status would have a considerable impact. Despite the absence of formal political and economic links, China and Taiwan have established indirect trade and investment ties which have grown substantially over the years. China has been Taiwan's largest destination for overseas investments and the second largest market for its exports. Taiwan firms have invested heavily in a

⁴⁴ Congressional Research Service, Issue Brief submitted by Kerry Dumbaugh, "Hongkong's Return to China : Implications for US Interests", Washington DC, 11 December 1996, pp. crs -2.

wide variety of labour intensive and export oriented industries (textile, toys, shoes) in mainland China. It is estimated that about 70% of products exported by Taiwan based firms in China were shipped to the US market. Withdrawal of MFN status for China would imply tariffs on products made by Taiwanese firms in China and would reduce Chinese demand for imported Taiwanese raw materials and machinery used in the productions of commodities exported to the United States.⁴⁵

The overall economic costs of withdrawal may also produce less desirable effects on other aspects of the bilateral relationship. A number of other political, social and diplomatic irritants may arise which would hamper US-China ties. It is believed that a retrogression of the economic reform process in China may be witnessed. The last fifteen years of economic reform in China had considerably raised the standard of living of 22% of the world's population. American companies operating in China have increased options in consumer products thereby producing greater economic freedom. Through trade, the West was able to spread its Democratic ideals and culture in China. Any revocation of the MFN status would completely block this channel.⁴⁶

Often, withdrawal of China's MFN is sought to punish China for violations of the Missile Technology Control Regime and the Non-Proliferation Treaty. However, supporters of the status for China believe that instead of an indiscriminate sanction on all US financed projects in China, the Administration could target specific Chinese

⁴⁵ f.n. 5, p. 7.

⁴⁶ *ibid*, p. 9.

enterprises responsible for the violations. Revoking MFN could encourage China to increase arms sales as a retaliatory measure. According to them, in the area of non-proliferation then, MFN is the wrong tool to seek concessions.

Further, the Congress has consistently linked revocation of MFN status for China with its human rights record. They believed that the US should use its economic leverage against China to improve its human rights record.. Commentators however believed that a free market approach to human rights policy doesn't mean that Americans are indifferent to human rights abuses in China. However, blanket restrictions such as denial of MFN status would not directly target the wrongdoers. The logical alternative would then be to use the leverage of trade to open China to competitive forces and let the rule of law and Democratic values evolve spontaneously as they have in South Korea and Taiwan.⁴⁷

Finally, there has existed limited support for linking of the MFN status to other issues amongst US allies. Although largely silent on the issue, many US allies like Japan, Germany, France, Great Britain have been indirect beneficiaries of the annual US debate on China's MFN status. Even though supportive of the US demand for improvement in China's human rights record, the EU and other countries have refrained from adopting an assertive stance due to larger commercial interests.

⁴⁷ *ibid*, p. 13.

The Congressional debate on the issue of China's MFN status has generated several view points as members assess US-China relations on the issue. For some, the MFN renewal process has provided an effective means for the Congress to influence US policy towards China on issues of concern like human rights, trade and weapons proliferation.

Other members believe that the threat to terminate China's MFN status has failed to modify its behaviour. In fact, termination of the status is too severe an option for US policy since it would end US-China trade and would involve significant costs to US consumers of Chinese products and US exports.⁴⁸

The MFN debate is based on the following premises: (a) that MFN is a privileged treatment and (b) that revoking MFN would be an effective way to force a favourable change in China's behaviour.

As a result, the annual renewal of MFN has become a platform for 'China bashing'⁴⁹ which has created a level of uncertainty in long-term, stable US-China relations. In recent years, there is a diminishing support for termination or conditioning of the MFN as members realize the limits of using a commercial policy to address non-commercial issues. The White House has, since 1989, extended the status consistently. Opinion is

⁴⁸ Carroll J.Doherty, "Business Stakes Are High in the Sanctions Debate", Congressional Quaterly and Weekly Report, 30 March 1996, pp. 89-92.

⁴⁹ f.n. 4, p. 13.

beginning to view the annual extension process as dysfunctional and unproductive. This was reflected in the passage of the H.Res. 461 (411 to 7) vote in the 104th Congress which stated that “the extension of the most favoured nation trading status (and the potential of its annual non-renewal) has been inadequate to address many policy and security issues that characterize our bilateral relationship.”⁵⁰

Conditioning and withdrawal of the MFN would eliminate any possibility of cooperation from Beijing and would render the US less effective in its efforts to limit transfers of technology and weapons of mass destruction, correct unfair trade practices and foster development of Democratic values in China. The economic costs of such a policy would detrimentally effect Hong Kong and Taiwan as well.

Some interests groups were of the belief that the Jackson-Vanik amendment itself should be repealed since China has always met the freedom of emigration clause. However, opponents of this measure believed that such a step would weaken Congressional influence over US foreign policy. They believed that Congressional threats to terminate or condition China’s MFN led the Bush Administration to induced measures to protect IPR’s and textiles. They also believe that the annual debate on the MFN status induces other affected countries to make political and economic reforms to obtain permanent MFN status.

⁵⁰ Carroll J.Doherty, “Once Again China’s Critics Plan To Go Down Fighting ”, Congressional Quaterly and Weekly Report, 22 June 1996, pp.1770-74.

Opinion has reflected that revoking the MFN status of China would not be a wise move because of the economic, social and political costs involved. In fact, the status should be renewed unconditionally, so as to maintain stable relations with the world's fastest growing economy. It is believed that extending MFN is essential, but it is only one element in the comprehensive strategy that the United States has adopted to ensure stable relations with China.

CHAPTER V

CONCLUSION

The Tiananmen Square massacre on June 4, 1989, at Beijing, China, brought to the forefront, the competing goals of commercial interest and social justice, in the conduct of United States policy towards China. Between 1989 and 1996, the US policy process towards the Peoples' Republic of China has been characterised by confrontation rather than consensus, with the Congress and the Executive clashing repeatedly over the direction and conduct of China policy. While the different Administrations often blamed the Congress as being obstructionist and partisan on China issues, the Congress criticized the Administration for ignoring Congressional initiatives and adopting an accommodative posture towards Beijing, despite its dismal human rights record.

US-China relations became stable in the years following the Sino-Soviet split of 1968. The resultant rise of Soviet militarism, began the rapprochement process between the two countries. It culminated in the signing of the Shanghai Communiqué during President Nixon's historic visit to China in 1972. The importance of the "China card" helped the US and China overlook potential areas of conflict like Taiwan, in the following years. The Carter Administration's adoption of the 'One China policy led to the normalisation of relations between the US and China formalised with the signing of the Joint Communiqué in 1979. It produced a close consultative relationship which

opened possibilities for Sino-American cooperation in the pursuit of common objectives, globally as well as in the Asia-Pacific region. The economic modernisation process undertaken by Deng Xiaoping was further stimulated by the grant of MFN status to China by the US in 1980. Thus, the normalisation of the bilateral relationship proliferated the trade relationship between the two countries.

In China too, the pace and level of economic reforms accentuated the trade ties. The 12th Party Congress in September 1982, in China, highlighted the importance of economic reform and stated that the PRC would attempt to quadruple its GDP by year 2000. The new state constitution adopted in December 1982 provided the legal framework for the reform process whereby the contours of the bilateral trade relationship changed with trade rising from \$ 1.1 billion in 1978 to \$ 4.4 billion in 1983. Apart from some irritants during the Reagan period due to the Administration's renewed concern over Taiwan's security and economic interests, Sino-US relations remained fairly stable. The US Congress continued to play a largely subordinate role in framing the policy towards China. Extension of the MFN status therefore remained largely procedural. Evidence linked the reform process in China, as leading to an improvement of the standard of living of urban and farm workers, especially those in the Special Economic Zones and the Town and Village Enterprises. Indications of extensive links between the West and China leading to a growing influence of western culture and Democratic ideals amongst the younger Chinese, was seen both positively and negatively. For the latter, it seemed that by the late 1980s, the social problems

related with every modernisation process became apparent in China. Inflation, urban migration and corruption led to widespread political discontent within the country. In this scenario, the party leaders began to question the pace and ultimate goals of the reform process. Unable to come to terms with the demand for a Democratic political process, led the Chinese leadership to brutally silence the peaceful demonstrators at Tiananmen square on 4th June 1989. The inhuman killing of thousands of unarmed protests received worldwide disapproval through economic and political sanctions.

President Bush became the first world leader to condemn China's crackdown at Tiananmen Square. Though the Administration's immediate response was to impose military and diplomatic sanctions against China, President Bush adopted a more cautious approach in the conduct of relations with China after 1989. Aware of American national interests vis-à-vis China, he supported a policy of 'constructive engagement', which he conducted in coordination with his advisors in the Administration. President Bush's complete control of China policy drew from his previous associations with the country. His policy was based on his belief of the ascendancy of economic issues between the US and China. He felt that the strengthening of commercial ties would lead to the eventual adoption of Democratic ideals. This ended the bi-partisan consensus on US policy towards China.

The American engagement with China became a focal issue in the Executive- Congress debate on China policy. The debate essentially centred on the use of US economic

leverage (through the extension of China's Most Favoured Nation status) to improve the human rights situation in China. While the Congress constantly stressed the linking of the two issues, the Bush Administration emphasized the importance of a continued American presence in China, which would further Democratic ideals and nurture vital business interests. The Congress however, through the Pelosi and Mitchell bills continued to demand conditions or revocation of China's MFN status. However, a Presidential veto every year led to a granting of unconditional MFN status. Therefore, the Bush Administration's strategy of delineating domestic pressures from overtly influencing foreign policy was based on the rationale of juxtaposing the economic interests lobby to human rights lobby. Eventually the Bush Administration believed that China would increasingly see its interests served by adherence to international norms, whether, the issue was human rights, non-proliferation or trade. Accordingly, the US, therefore, needed to be constructively engaged with China to pursue all its interests at various levels and to achieve its goals. Despite the Administration's efforts at preserving the relationship, varying levels of confrontation existed between the two countries. The Congress and public opinion continued to criticise President for his disregard for human rights abuses in China and an over emphasis on foreign affairs, which led to domestic upheavals and a complete loss of US competitiveness.

The Democratic Party utilised the growing public sentiment against the Bush Administration's policies in general, and, in China, in particular. The 1992 election therefore became "a referendum for change". The initial policy response of the newly

elected President Clinton was to link the human rights issues to China's MFN status through the Executive Order in 1993. This measure was reflective of the Democratic party's goals of threading social justice and national interest into single policy. Though Clinton did attempt to satisfy Congressional and public concern over China's violations in areas of nuclear policy, trade, human rights, he quickly realised the cost of dealing with an economically resurgent China, which was too important to ignore or isolate. By May 1994, the Clinton Administration moved to delink the issue of trade from human rights with a majority supporting from the Congress, business consortiums and public. A minority of human rights organisations however, were critical of the move. The growing realisation that America was unwilling to forego, its national interests to preserve human rights in China became the basis for the delinkage. While 1994 did see the return of the Congressional demand for conditioning of China's status, it was reduced to a large extent. In this changed scenario, the Clinton Administration embarked upon a policy of comprehensive engagement through which it aimed to concretise US-China relations in areas of trade, nuclear proliferation and regional scrutiny.

In 1996, the remarkable expansion of Chinese investment climate and foreign exchange reserves, while attracting acclaim also contributed to serious conflicts with other countries, notably the US. The US charged China with failing to prevent violations of intellectual property right laws, weapons proliferation and limited access to the Chinese domestic market which led to abnormally high trade surpluses in favour of the

Chinese. Political tensions between the two countries escalated with the visit of President Lee Teng-hui to the US. The Chinese considered this to be a breach of the US commitment to the “One China” policy. They responded negatively, with a series of military exercises in the proximity of the Taiwan Strait. The turbulence and contentions in US-China relations during this period was somewhat compounded by interactions between high level policy makers from both the countries.

To a considerable extent, US policy towards China has been overwhelmingly dominated by debates on China’s MFN status. The US Congress since 1990, has used this tool to demand concessions from the Chinese. The commercial policy has therefore been used to seek non-commercial ends. Frustrated with its failure to pressure successful Administrations to adopt a more forceful stance, the Congress has continually challenged the Administration with stringent conditions for extension of the MFN, albeit with little success. The members of the Congress believed this to be an effective means of influencing US policy towards China. This belief was based on the premise that MFN is a privileged treatment and that revoking MFN would be an effective way to force a favourable change in China’s policy. Studies show that withdrawal of the MFN would involve significant costs to US consumers of Chinese products and US exports. It would also restrict US investment in China apart from negatively influencing the Hong Kong and Taiwan economies. Apart from the economic costs involved, several other issues may also arise. These could include, China’s return to political isolation, reversal in the economic reform process, and a

massive arms buildup along with greater nuclear proliferation.

In 1996, reports stated that US and Chinese negotiators were attempting to craft a compromise framework on human rights that would entail China's release of additional political prisoners, open Chinese prisons to International Red Cross inspection, which could lead to a grant of permanent MFN status to China. Though the resumption of dialogue was a positive sign, it could not withstand the cross-currents of domestic politics in The US and China. As a result in the US, the Executive and the Congress continues to debate the fundamental differences in trying to craft a compromise framework on China's human rights record. Therefore, any dramatic change in the US policy towards China has been very unlikely. The MFN issue will remain a major element in US-China relations, yet, it may not be the only element in the comprehensive strategy that the US has adopted to ensure stable relations with China.

APPENDIX

MFN and Full-Duty Treatment of U.S. Imports from China, 1995:
Imports for consumption (value in millions of U.S. \$)

| H.T.S. Item | Description ^a | Value of imports | | Duty rate ^b | | Amount of calculated duty at C.i.f. value & duty | | | | ° |
|-------------|--|------------------|---------|------------------------|------------------|--|-----------|---------|---------|-------|
| | | Customs | C.i.f. | MFN | Full | MFN Rate | Full Rate | MFN | Full | |
| 95039000 | Sundry toys, nes. | 1,227.6 | 1,317.3 | 0 | 70 | 0.0 | 859.3 | 1,317.3 | 2,176.6 | 65.2 |
| 64029918 | Sundry plastic footwear | 1,181.7 | 1,251.7 | 6 | 35 | 70.9 | 413.6 | 1,322.6 | 1,665.3 | 25.9 |
| 64039990 | Women's low leather footwear | 1,119.4 | 1,173.8 | 10 | 20 | 111.9 | 223.9 | 1,285.8 | 1,397.7 | 8.7 |
| 95021000 | Dolls | 794.8 | 856.1 | 0 | 70 | 0.0 | 556.4 | 856.1 | 1,412.4 | 65.0 |
| 95034100 | Stuffed toys | 735.4 | 810.6 | 0 | 70 | 0.0 | 514.8 | 810.6 | 1,325.4 | 63.5 |
| 64039960 | Certain men's leather footwear | 713.2 | 746.6 | 8.5 | 20 | 60.6 | 142.6 | 807.2 | 889.2 | 10.2 |
| 42031040 | Leather apparel | 603.0 | 624.1 | 6 | 35 | 36.2 | 211.0 | 660.3 | 835.2 | 26.5 |
| 85252050 | Cordless telephones | 522.4 | 531.2 | 4.8 | 35 | 25.1 | 182.8 | 556.2 | 714.0 | 28.4 |
| 84733010 | ADP printed circuit assemblies | 476.0 | 485.4 | 0 | 35 | 0.0 | 166.6 | 485.4 | 652.0 | 34.3 |
| 67029035 | Artificial flowers | 465.6 | 507.2 | 9 | 71.5 | 41.9 | 332.9 | 549.1 | 840.0 | 53.0 |
| 61109090 | Sweaters, vests, not cotton, wool, MMF | 463.3 | 486.7 | 6 | 60 | 27.8 | 278.0 | 514.5 | 764.7 | 48.6 |
| 64039160 | Men's high leather shoes | 413.3 | 434.7 | 8.5 | 20 | 35.1 | 82.7 | 469.8 | 517.3 | 10.1 |
| 64029140 | Over-ankle plastic footwear | 400.9 | 22.8 | 6 | 35 | 24.1 | 140.3 | 446.8 | 563.1 | 26.0 |
| 39269098 | Certain plastic articles | 392.1 | 427.3 | 5.3 | 80 | 20.8 | 313.7 | 448.0 | 741.0 | 65.4 |
| 85271111 | Battery-run radio-tape players | 381.2 | 393.8 | 3 | 35 | 11.4 | 133.4 | 405.2 | 527.2 | 30.1 |
| 95034900 | Nonstuffed toys | 378.6 | 404.5 | 0 | 70 | 0.0 | 265.1 | 404.5 | 669.5 | 65.5 |
| 64039190 | Women's high leather footwear | 369.6 | 387.2 | 10 | 20 | | | | | |
| 94053000 | Christmas tree light sets | 358.5 | 380.3 | 8 | 50 | 28.7 | 179.2 | 409.0 | 559.6 | 36.8 |
| 62061000 | Women's woven silk blouses | 347.8 | 364.2 | 7.4 | 65 | 25.7 | 226.1 | 390.0 | 590.3 | 51.4 |
| 95037000 | Toys in sets | 347.6 | 377.5 | 0 | 70 | 0.0 | 243.3 | 377.5 | 620.8 | .5 |
| 84733050 | Certain ADP machine parts | 338.0 | 348.0 | 0 | 35 | 0.0 | 118.3 | 348.0 | 466.3 | 34.0 |
| 95038000 | Motorized toys | 323.8 | 347.5 | 0 | 70 | 0.0 | 226.7 | 347.5 | 574.2 | 65.2 |
| 84145100 | Electric fans | 319.8 | 350.7 | 4.7 | 35 | 15.0 | 111.9 | 365.8 | 462.7 | 26.5 |
| 85199900 | Cartridge-type tape players | 316.9 | 321.3 | 3.1 | 35 | 9.8 | 110.9 | 331.1 | 432.2 | 30.5 |
| 27090020 | Crude petroleum, 250 A.P.I. or more | 309.0 | 336.3 | 0.6 ^d | 1.3 ^d | 2.0 | 3.9 | 338.2 | 340.2 | 0.6 |
| 42022215 | Plastic handbags | 305.9 | 327.5 | 19.6 | 45 | 60.0 | 137.7 | 387.5 | 465.2 | 20.1 |
| 95049040 | Game machines | 299.4 | 310.4 | 0 | 35 | 0.0 | 104.8 | 310.4 | 415.1 | 33.8 |
| 90065300 | 35mm photographic cameras | 274.8 | 281.7 | 2.4 | 20 | 6.6 | 55.0 | 55.0 | 288.3 | 336.7 |
| 95051025 | Christmas ornaments, not wood or glass | 271.1 | 292.0 | 0 | 20 | 0.0 | 54.2 | 292.0 | 346.2 | 18.6 |
| 90091200 | Electrostatic photocopiers | 262.9 | 267.3 | 3.7 | 35 | 9.7 | 92.0 | 277.0 | 359.3 | 29.7 |
| 85438098 | Sundry electrical apparatus | 258.4 | 268.5 | 3.6 | 35 | 9.3 | 90.4 | 277.8 | 358.9 | 29.2 |
| 84719330 | ADP magnetic disk drive units | 254.9 | 259.8 | 0 | 35 | 0.0 | 89.2 | 259.8 | 349.1 | 34.3 |

MFN and Full-Duty Treatment of U.S. Imports from China, 1995:
Imports for consumption (value in millions of U.S. \$)

| H.T.S. Item | Description ^a | Value of imports | | Duty rate ^b | | Amount of calculated duty at C.i.f. value & duty | | | | c |
|-------------|-----------------------------------|------------------|--------|------------------------|------|--|-----------|-------|-------|------|
| | | Customs | C.i.f. | MFN | Full | MFN Rate | Full Rate | MFN | Full | |
| 85211060 | VCR color cartridges | 251.5 | 253.9 | 3.1 | 35 | 7.8 | 88.0 | 261.7 | 341.9 | 30.7 |
| 85171000 | Telephone sets | 251.3 | 260.5 | 8.5 | 35 | 21.4 | 88.0 | 281.9 | 348.5 | 23.6 |
| 42029245 | Plastic travel bags | 235.9 | 253.8 | 20 | 45 | 47.2 | 106.1 | 301.0 | 360.0 | 19.6 |
| 84719932 | ADP machine power supplies | 227.2 | 244.2 | 0 | 35 | 0.0 | 79.5 | 244.2 | 323.7 | 32.6 |
| 63079099 | Sundry minor textile articles | 224.5 | 239.6 | 7 | 40 | 15.7 | 89.8 | 255.3 | 329.4 | 29.0 |
| 84719350 | ADP storage units | 222.9 | 232.4 | 0 | 35 | 0.0 | 78.0 | 232.4 | 310.4 | 33.6 |
| 94036080 | Certain wooden furniture | 216.4 | 241.3 | 2 | 40 | 4.3 | 86.6 | 245.7 | 327.9 | 33.5 |
| 95051050 | Christmas articles, non-plastic | 216.2 | 237.4 | 0 | 90 | 0.0 | 194.6 | 237.4 | 432.0 | 82.0 |
| 85273140 | Radio-tape players | 208.7 | 216.7 | 3.2 | 35 | 6.7 | 73.0 | 223.4 | 289.7 | 29.7 |
| 85271160 | Battery-run-radio receivers | 208.6 | 214.5 | 3 | 35 | 6.3 | 73.0 | 220.7 | 287.5 | 30.2 |
| 61103030 | Knitted sweaters, man-made fbr. | 200.3 | 215.6 | 34 | 90 | 68.1 | 180.2 | 283.6 | 395.8 | 39.5 |
| 95051040 | Plastic Christmas articles | 171.8 | 197.4 | 0 | 60 | 0.0 | 103.1 | 197.4 | 300.5 | 52.2 |
| 94052060 | Electric lamps, standing | 169.6 | 189.0 | 7.3 | 45 | 12.4 | 76.3 | 201.4 | 265.3 | 31.8 |
| 42022160 | Leather handbags, under \$20 | 169.2 | 177.3 | 10 | 35 | 17.0 | 59.2 | 194.2 | 236.5 | 21.8 |
| 95069100 | Athletics equipment | 168.5 | 194.6 | 4.6 | 40 | 7.8 | 67.4 | 202.3 | 262.0 | 29.5 |
| 84719232 | Color CRT display units | 165.6 | 170.6 | 3 | 35 | 5.0 | 58.0 | 175.5 | 228.5 | 30.2 |
| 39264000 | Plastic ornamental articles | 163.4 | 177.0 | 5.3 | 80 | 8.7 | 130.7 | 185.7 | 307.7 | 65.7 |
| 69131050 | China ornamental articles | 152.0 | 167.0 | 0 | 70 | 0.0 | 106.4 | 167.0 | 273.4 | 63.7 |
| 85203100 | Cassette tape recorder/players | 144.5 | 148.7 | 3.1 | 35 | 4.5 | 50.1 | 153.2 | 199.3 | 30.1 |
| 85044080 | Electrical static converters | 141.2 | 148.2 | 2.7 | 35 | 3.8 | 49.4 | 152.1 | 197.7 | 30.0 |
| 64039130 | Rubber-sole high leather footwear | 132.5 | 138.6 | 5 | 20 | 6.6 | 26.5 | 145.2 | 165.1 | 13.7 |
| 85232000 | Blank magnetic disks | 131.6 | 134.1 | 3.4 | 80 | 4.5 | 105.3 | 138.5 | 239.3 | 72.7 |
| 64041935 | Plastic slip-on footwear | 129.7 | 139.6 | 37.5 | 66 | 48.7 | 85.6 | 188.2 | 225.2 | 19.6 |
| 85163100 | Electric hair dryers | 129.1 | 138.0 | 3.9 | 35 | 5.0 | 45.2 | 143.1 | 183.2 | 28.1 |
| 85271120 | Battery-run radio/tape recorders | 128.4 | 134.1 | 3.9 | 35 | 5.0 | 44.9 | 139.1 | 179.0 | 28.7 |
| 42029230 | Textile travel bags, pile | 127.7 | 136.6 | 19.8 | 65 | 25.3 | 83.0 | 161.9 | 219.6 | 35.7 |
| 62034240 | Men's cotton trousers | 127.3 | 134.1 | 17.6 | 90 | 22.4 | 114.6 | 156.5 | 248.6 | 58.9 |
| 39253010 | Plastic window blinds | 127.0 | 141.5 | 3.3 | 25 | 4.2 | 31.7 | 145.7 | 173.2 | 18.9 |
| 64029190 | Plastic high footwear | 126.9 | 131.8 | 20 | 35 | 25.4 | 44.4 | 157.2 | 176.2 | 12.1 |
| 85273150 | Radio/CD players | 125.1 | 129.9 | 4.4 | 35 | 5.5 | 43.8 | 135.4 | 173.7 | 28.3 |
| 85182900 | Loudspeakers | 124.5 | 132.7 | 4.9 | 35 | 6.1 | 43.6 | 138.8 | 176.3 | 27.0 |
| 85272110 | Plug-in radio/tape players | 123.2 | 125.7 | 3.4 | 35 | 4.2 | 43.1 | 129.8 | 168.8 | 30.0 |
| 62046940 | Silk trousers | 122.9 | 128.7 | 6.9 | 65 | 8.5 | 79.9 | 137.2 | 208.6 | 52.1 |

MFN and Full-Duty Treatment of U.S. Imports from China, 1995:
Imports for consumption (value in millions of U.S. \$)

| H.T.S. Item | Description ^a | Value of imports | | Duty rate ^b | | Amount of calculated duty at C.i.f. value & duty | | | | c |
|-------------|--------------------------------------|------------------|----------|------------------------|------|--|-----------|----------|----------|------|
| | | Customs | C.i.f. | MFN | Full | MFN Rate | Full Rate | MFN | Full | |
| 95063900 | Golf eqpt.(exc. clubs, balls) | 122.1 | 127.1 | 4.9 | 30 | 6.0 | 36.6 | 133.6 | 164.3 | 22.9 |
| 39241050 | Plastic tableware, nes. | 121.7 | 133.6 | 3.4 | 80 | 4.1 | 97.3 | 137.7 | 230.9 | 67.7 |
| 85178240 | Facsimile machines | 118.5 | 120.6 | 4.7 | 35 | 5.6 | 41.5 | 126.2 | 162.1 | 28.4 |
| 85163200 | Electric hairdressing apparatus | 116.9 | 122.9 | 3.9 | 35 | 4.6 | 40.9 | 127.4 | 163.8 | 28.5 |
| 85166040 | Electric cooking stoves | 116.4 | 120.4 | 0 | 35 | 0.0 | 40.8 | 120.4 | 161.1 | 33.9 |
| 64041950 | Certain fabric footwear | 116.4 | 131.2 | 48 | 84 | 55.9 | 97.8 | 187.1 | 229.0 | 22.4 |
| 85011040 | Electric motors, under 18.65W | 115.1 | 118.7 | 6.5 | 35 | 7.5 | 40.3 | 126.2 | 159.0 | 26.0 |
| 85445180 | Electric conductors (80V-1000V) | 114.0 | 120.4 | 4.8 | 35 | 5.5 | 39.9 | 125.9 | 160.3 | 27.3 |
| 84733030 | Parts for ADP printers | 113.9 | 115.0 | 0 | 35 | 0.0 | 39.9 | 115.0 | 154.9 | 34.7 |
| 27040000 | Coke | 113.5 | 136.3 | 0 | 0 | 0.0 | 0.0 | 136.3 | 136.3 | 0.0 |
| 61102020 | Knitted cotton sweaters | 111.3 | 117.9 | 20.3 | 50 | 22.6 | 55.6 | 140.5 | 173.5 | 23.5 |
| 85271950 | Radio receivers | 109.8 | 113.8 | 5.4 | 35 | 5.9 | 38.4 | 119.8 | 152.3 | 27.1 |
| 90041000 | Sunglasses | 109.6 | 115.4 | 6.2 | 40 | 6.8 | 43.8 | 122.2 | 159.2 | 30.3 |
| 95041000 | TV-screen video games | 109.3 | 112.9 | 0 | 35 | 0.0 | 38.2 | 112.9 | 151.1 | 33.9 |
| 87150000 | Baby carriages | 108.2 | 118.6 | 4.4 | 45 | 4.8 | 48.7 | 123.4 | 167.3 | 35.6 |
| 39249055 | Plastic household, toilet articles | 107.3 | 117.8 | 3.4 | 80 | 3.7 | 85.8 | 121.4 | 203.6 | 67.7 |
| 42023160 | Leather pocket articles | 106.7 | 110.9 | 8 | 35 | 8.5 | 37.3 | 119.4 | 148.2 | 24.1 |
| 85098000 | Minor electrical domestic appliances | 104.3 | 109.9 | 4.2 | 40 | 4.4 | 41.7 | 114.3 | 151.6 | 32.7 |
| 68109900 | Sundry cement articles | 102.1 | 108.1 | 3.9 | 30 | 4.0 | 30.6 | 112.0 | 138.7 | 23.8 |
| 62064030 | Women's blouses, man-made fiber | 102.1 | 108.4 | 28.4 | 90 | 29.0 | 91.9 | 137.4 | 200.3 | 45.8 |
| 84729090 | Sundry minor office machines | 101.6 | 104.2 | 3.3 | 35 | 3.4 | 35.6 | 107.5 | 139.7 | 30.0 |
| 87120035 | Large-wheel bicycles | 101.5 | 109.0 | 11 | 30 | 11.2 | 30.5 | 120.1 | 139.4 | 16.1 |
| | Total of 87 items ^e | 23,234.5 | 24,612.3 | 5.5 | 44.8 | 1,270.5 | 10,417.5 | 25,882.8 | 35,029.8 | 35.3 |

Source: US Department of Commerce. Tradenet
US International Trade Commission. Harmonized Tariff Schedule of the United States, 1995.

- ^a In most cases, a shortened version of the description given in the Harmonized Tariff Schedule.
^b In percent ad valorem.
^c Percentage difference between the landed cost (c.i.f. value plus duty) of items under MFN and full duty rates.
^d Duty rates shown are ad valorem equivalents of specific rates of, respectively, 10.5 and 21 cents per barrel.
^e Duty rates shown are calculated average trade-weighted rates of the listed items.

Table from CRS Report submitted by Vladimir N. Pregelj, "Direct Cost Effect of Withdrawing China's Most-Favored-Nation Status", Washington DC, 13 Nov. 1996, pp. CRS - 4 - 6.

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