

## **57. Relations with China**

### ***Congress should***

- avoid imposing economic sanctions against China even for narrowly defined objectives, since such measures will undermine permanent normal trade relations (PNTR);
- reject the proposed Taiwan Security Enhancement Act;
- urge the executive branch to be more responsive to Taiwan's requests to purchase defensive weapons systems;
- urge the executive branch to treat China as a normal great power, not as either a "strategic partner" or a probable adversary; and
- recognize that advancing economic freedom in China has had positive effects on civil society and personal freedom for the Chinese people.

U.S.-Chinese relations have become increasingly unpredictable. Just two years ago, both governments spoke of a "strategic partnership" and sought ways to enhance already substantial economic and political ties. The bombing of the Chinese embassy in Belgrade, the release of the Cox report alleging systematic nuclear espionage by the People's Republic of China (PRC), and angry Chinese reactions to both developments, however, have produced a new round of tensions.

So, too, did the publication of China's White Paper in February 2000 and its expanded threat to use force against Taiwan if the Taiwanese authorities continue to refuse to negotiate about reunification. Beijing's saber rattling in the weeks leading up to Taiwan's presidential election and the warlike tone that is still found in the publications of the People's Liberation Army are also ominous developments. On the positive side, passage of the U.S.-China Relations Act of 2000 (H.R. 4444) by the 106th Congress will further open China's markets, increase U.S.-Chinese trade,

and pave the way for China's accession to the World Trade Organization. The door will then be open for Taiwan to follow the PRC into the WTO. Those positive changes offer hope that U.S.-Chinese relations will improve in the future.

## ***Friend or Foe?***

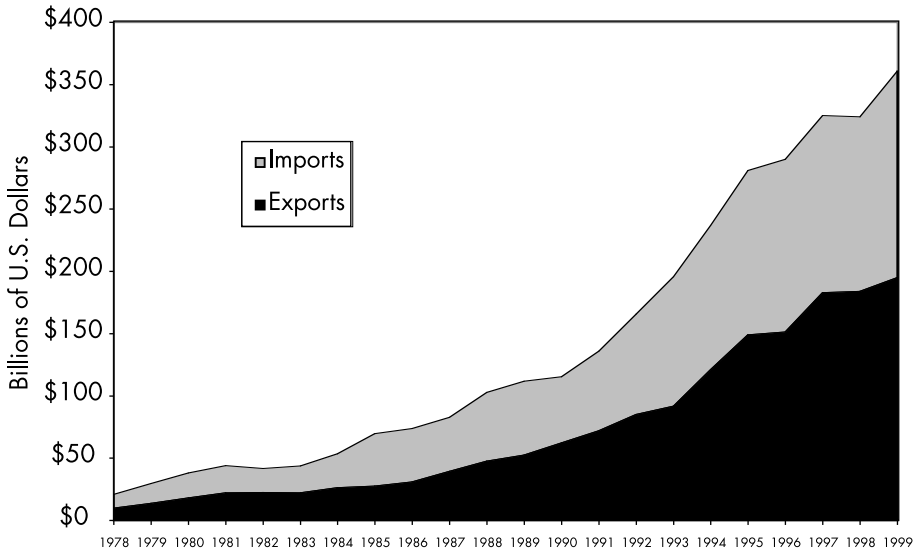
Is China a rising colossus that intends to bully its neighbors and dominate Asia? Or is China a country that has already moved far along the road to a market economy and a more open society and is committed to being a stabilizing, cooperative power? Those are the questions that U.S. policymakers must examine as they consider both the short- and the long-term prospects for the evolution of a peaceful and prosperous "new China," despite the background of 50 years of communist rule.

The dark side of the Chinese communist state is disturbing and must not be ignored. But that unsavory record should not be allowed to hide the progress that the Chinese people have made since economic reforms began in 1978. China's opening to the outside world has greatly expanded China's external trade. In 1978 the total value of Chinese imports and exports amounted to only \$20.6 billion. By the end of 1999 their value had increased to \$360.7 billion (Figure 57.1). Increased trade has promoted the growth of markets relative to state planning, given millions of people new opportunities, and substantially raised living standards, especially in the coastal cities where economic liberalization has advanced the most.

China's leaders have reluctantly accepted economic competition while trying to maintain their monopoly of political power. But as people have acquired greater economic freedom, they have also sought greater personal freedom. The Chinese Communist Party (CCP) is desperately trying to grow the productive nonstate sector while preventing an erosion of the party's power as market participants demand greater civil liberties and a meaningful political voice.

The United States and other countries are betting that China's accession to the WTO will make China a more open society and eventually lead to democratic rule as well as a more stable and peaceful international policy on the part of Beijing. However, while free trade is necessary for peace, it is not sufficient. The Communist Party may be willing to sacrifice substantial gains from trade in order to protect its power and privilege. Witness, for example, the recent threats against Taiwan, one of China's key trading partners and a major source of investment capital.

**Figure 57.1**  
**China's Opening to the Outside World**

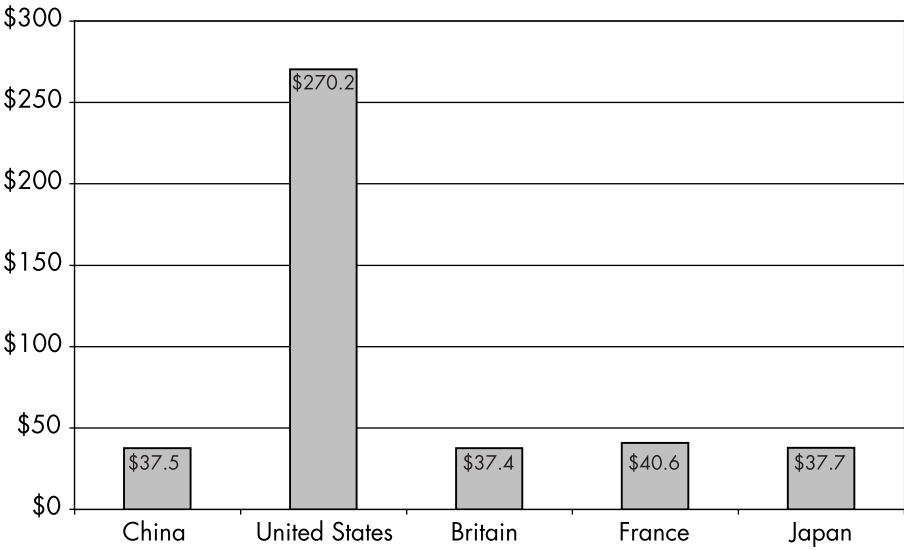


SOURCES: *China Statistical Yearbook*, 1999; and Bank of China International.

The challenge for the United States is to exploit opportunities for further gains from trade and move closer to a constructive partnership with the PRC—but at the same time protect vital U.S. interests. Unfortunately, the U.S. policy debate thus far has been largely a contest between the Clinton administration's muddled and inconsistent approach and the extremely confrontational approach advocated by many conservatives. The latter strategy risks creating a self-fulfilling prophecy that China will become an enemy. Indeed, a growing chorus in Congress and the U.S. foreign policy community argues that the PRC is a belligerent dictatorship and an implacable future enemy of the United States.

Painting China as an economic and military adversary is dangerous and misguided. Free trade is mutually beneficial—both China and other countries gain from trade liberalization. There is no doubt that, as the Chinese economy grows, so will the Chinese military budget. But that is not unusual for a large nation-state, and thus far China's military spending and its military modernization effort have been relatively modest. By most estimates, the PRC's current military budget is about \$37 billion, comparable to the budgets of such countries as Britain, France, and Japan (Figure 57.2).

**Figure 57.2**  
**1998 Military Expenditures**  
**(billions of U.S. dollars)**



SOURCE: International Institute for Strategic Studies, *The Military Balance*, 1999.

It is true that no one can be certain how the PRC will behave on security issues in the future. Unlike Nazi Germany or the Soviet Union, however, the PRC is not a messianic, expansionist power; it is a normal rising (or reawakening) great power. At times, that can be difficult enough for other countries to deal with, but such a country does not pose a malignant security threat.

***Proceed with Caution***

The best course is to treat China as a normal (albeit sometimes repressive and prickly) great power but avoid the extremes of viewing the PRC as either enemy or strategic partner. The United States would also be wise to encourage other major countries in Asia to think more seriously about how they intend to deal with a rising China. A collection of diffident, militarily weak neighbors, wholly dependent on the United States for protection, is not likely to cause Beijing to behave cautiously.

Beijing’s behavior toward regional neighbors has been a curious amalgam of conciliation and abrasiveness. Examples of conciliation include

efforts to dampen the border disputes with such important land neighbors as India, Vietnam, Russia, and Kazakhstan and a campaign to build close political and economic ties with South Korea. The PRC has also been helpful in trying to discourage the North Korean regime from pursuing a nuclear-weapons program and has facilitated the recent *détente* between the two Koreas. At the same time, China's relations with Japan, the Philippines, and some other oceanic neighbors are noticeably more confrontational, and Beijing still aggressively pushes its territorial claims in the South China Sea.

Taiwan remains an especially dangerous flashpoint. Any move toward formal independence by Taipei would surely provoke military action by Beijing. Yet China's economic future depends strongly on Taiwan's prosperity, so military action is likely seen as a last resort. The election of Chen Shui-bian and the defeat of the long-dominant Nationalist Party are stern reminders to the CCP that its own future is highly uncertain.

Despite Beijing's objections, the United States should be more willing to sell Taiwan the weapons it needs for its own defense, including the Aegis destroyers the Taiwan government has requested. However, Congress should reject the proposed Taiwan Security Enhancement Act, which would create extensive military ties between Washington and Taipei and put the United States in the middle of the dangerous PRC-Taiwan dispute.

## ***China's Changing Tide***

The domestic tension created by Beijing's strategy of opening China's economy to the outside world while preventing meaningful political change has to be released sooner or later. The question is, How far and how fast will China go toward creating a fully open society based on private property and limited government? Gradualism appears to have worked reasonably well so far, but the inefficiency of China's nonstate sector is apparent and corruption is rampant.

Yet it is undeniable that a significant transformation has occurred in the post-Mao era. Slowly but surely China is moving toward a stronger civil society, with the driving force being the market-oriented reforms initiated by Deng Xiaoping. Chinese intellectuals are now largely free to travel and lecture outside the mainland, and they are more interested in the works of Hayek and Friedman than those of Marx and Engels. Whether China will go all the way toward a true free-market system, though, remains highly uncertain.

That uncertainty is why the United States needs a clear, realistic, and prudent foreign policy toward the PRC. Instead of painting China as a serious threat one day and as a de facto strategic ally the next, the United States needs to formulate a balanced view consistent with our own principles—a view that recognizes our long-term interest in engaging China while at the same time protecting our national security. The PRC’s claims to the South China Sea islands and its relations with Japan and Taiwan must be viewed from that perspective.

It is also important to consider the future of economic, political, and social reform in China and how that future may be shaped by the liberal influence of Hong Kong and Taiwan. Will freedom spill over from those more open societies to the mainland, or will Chinese communism slowly corrupt the rule of law and weaken the free market in Hong Kong and seek to absorb and subordinate Taiwan? It seems clear that, unless it privatizes state-owned enterprises, China faces continuing problems of corruption and inefficiency. But wholesale privatization would undermine the last vestiges of party power. So the challenge for China’s leadership is stark.

Ultimately, the creation of real as opposed to pseudo markets in China will require the full recognition of private property rights. The recent amendment to Article 11 of the PRC constitution, which places the nonstate sector and private enterprise on a par with state-owned enterprises, is a step in that direction. But without further constitutional and political reform that places rights to life, liberty, and property above the party, and allows for both economic and political freedom, there can be no certainty of ownership.

**Article 11 of the PRC Constitution, as Amended March 15, 1999**

“Individual, private and other non-public economies that exist within the limits prescribed by law are *major components* of the socialist market economy. The state protects the lawful rights and interests of individual and private economies . . .” (emphasis added).

That is why it is so important for China to face foreign economic competition and to be exposed to new ideas. Every step in the direction of greater economic freedom will provide further opportunities for the

Chinese people to enlarge their private space and shrink the relative size of the state. Pressures will then build for greater social and political freedom.

### ***Toward a Workable Policy***

As William McGurn of the *Wall Street Journal* points out:

The changes we see in China are real—not because its leaders want such change but because those openings they have created constitute cracks in a system that people are quick to exploit. In the grossest terms, the bankruptcy of the socialist system, as much as real market openings, means that much of what was once provided by the state—housing, health care, retirement, livelihood—has become something the Chinese people are doing for themselves. It is inconceivable that even on this level such a shift would be without social and political consequences.

Agreement with McGurn's conclusion does not mean that we should ignore the human rights abuses committed by the Beijing regime. But cutting off—or even limiting—trade with China in the hope of improving human rights would be self-defeating. Isolating China would increase the power of the CCP, harm the nascent market sector, and weaken the position of those Chinese who favor economic and political reform. Even imposing narrowly targeted financial sanctions because of (legitimate) concerns about Beijing's apparent export of missile technology to Pakistan and other countries is the wrong response. It would merely antagonize the PRC without necessarily producing a change in behavior. As Federal Reserve Board chairman Alan Greenspan correctly points out, China could acquire the denied financial resources elsewhere. If free trade and investment flows are restricted, the probability of conflict between the PRC and the United States will increase. The United States should do everything in its power to expand contacts with the Middle Kingdom and push for liberal reforms.

The best concise answer to the question of whether China will be a constructive partner or an emerging threat in the early 21st century was given by an independent scholar in Beijing. In his view, the answer will “depend, to a very great extent, on the fate of liberalism in China: a liberal China will be a constructive partner; a nationalistic and authoritarian China will be an emerging threat.” America must prepare for both possibilities, but its policies should avoid needless snubs and provocations that would undermine the prospect for the emergence of a democratic, peaceful China.

***Suggested Readings***

- Carpenter, Ted Galen. “Let Taiwan Defend Itself.” Cato Institute Policy Analysis no. 313, August 24, 1998.
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