

61. Relations with China

Policymakers should

- treat China as a normal great power, not as a “strategic partner” or a probable adversary;
- continue to liberalize U.S.-Chinese relations and hold China to its World Trade Organization commitments;
- avoid imposing economic sanctions against China even for narrowly defined objectives, since such measures will undermine permanent normal trade relations (PNTR);
- support Taiwan’s requests to purchase defensive weapons systems but warn Taiwan that the United States will not defend the island with U.S. forces; and
- recognize that advancing economic freedom in China has had positive effects on civil society and personal freedom for the Chinese people.

Constructive Partner or Emerging Threat?

U.S.-Chinese relations have become increasingly unpredictable. During the late 1990s 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, and the forced landing of a U.S. spy plane on Hainan Island produced a new round of tensions. For a time, the Bush administration described the PRC as a strategic competitor, and the United States increased arms sales to Taiwan. In the last two years tensions have again receded, marked by China’s membership in the World Trade Organization and by cooperation between Beijing and Washington in the war against terrorism.

But, as the periodic reports by the U.S.-China Economic and Security Review Commission (also known as the U.S.-China Commission) and the Pentagon illustrate, there is a deep concern that China will be an increasing threat to U.S. global economic and military power. The Pentagon's recent report on China's military modernization efforts highlights the point that some members of the policy community worry about China's future capabilities and intentions.

It would be a major mistake to backslide from a policy of engagement into one of containment and to treat China as an adversary rather than as a normal great power. Managing relations with China and avoiding the extremes of confrontation or wishful thinking will be one of the key challenges facing U.S. policymakers in the next decade.

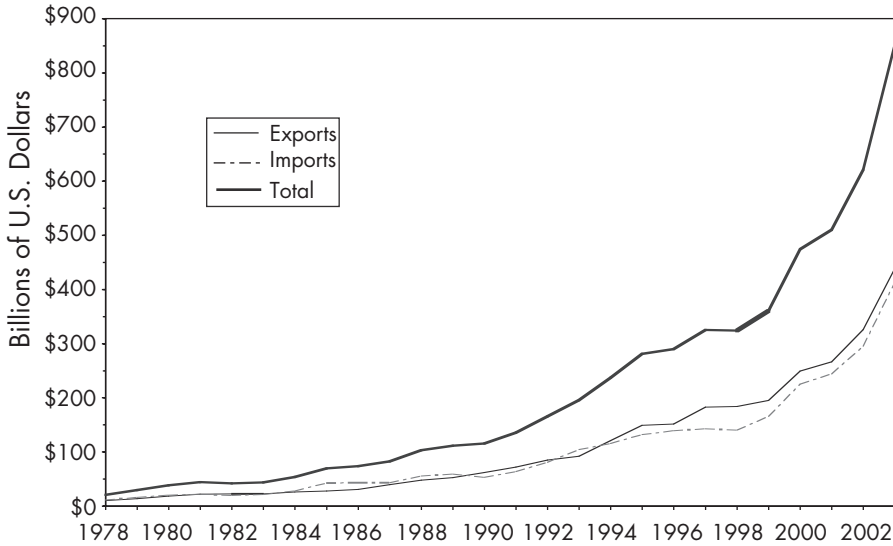
China's economy has grown precisely because Beijing has allowed greater economic freedom. Between 1980 and 2002 China's economic freedom rating increased from 3.8 to 5.7 (with 10 being the highest score), according to the *Economic Freedom of the World 2004 Annual Report*. The rise would be even more impressive, however, if one focused on the coastal provinces, such as Fujian, Guangdong, and Zhejiang, which are highly market oriented. Moreover, the current index score of 5.7 does not recognize the liberalization that has occurred in China since 2002, including the recent amendment to the constitution that gives greater protection to private property rights.

Trade liberalization has linked China to the international price system, dramatically increased per capita incomes, and provided the Chinese people with new opportunities. In contrast to 1978, when the central government had tight control over foreign trading rights, today virtually all firms are free to import and export.

The growth of China's foreign trade has been breathtaking. In 1978 the total value of Chinese imports and exports amounted to only \$20.6 billion. By the end of 2003 their value had increased to \$851.2 billion (Figure 61.1)—nearly 62 percent of GDP—making China one of the most open economies in the world.

Protectionists in the United States who point to large and growing trade deficits with China and to increased U.S. investment in China should not be allowed to block trade liberalization by injudicious use of national security and human rights arguments. Further liberalization of U.S.-Chinese trade is a win-win strategy and can play an important role in promoting peace, prosperity, and improved human rights. Containment would do the opposite (just ask the North Koreans).

Figure 61.1
China's Opening to the Outside World



SOURCE: PRC General Administration of Customs, *China's Customs Statistics*.

The U.S.-China Commission's 2002 report, "The National Security Implications of the Economic Relationship between the United States and China," offered more than 40 recommendations, many of which implicitly assume that China is a threat to U.S. economic and military power. The 2004 report, however, dropped many of the more onerous recommendations, such as the creation of a "federally mandated corporate reporting system" designed to force U.S. firms doing business in China to provide extensive data on all their business activities, even those that have no significant impact on national security. Nevertheless, the latest report continues to perceive the large U.S. trade deficit with China—a record \$124 billion in 2003—as a threat to the U.S. economy, especially to the manufacturing sector, and hence to national security.

The main premise of the 2004 report, like the earlier report, is that economic liberalization has not led to political change or to greater openness and that China's rapid growth poses a danger to U.S. security. To counter that threat, the commission favors restricting access to U.S. capital markets, invoking WTO safeguards to limit imports of selected manufactured goods such as textiles, and pressuring China to revalue its currency.

China should be given ample time to meet its obligations to the WTO and to the United States under the 1999 bilateral market access agreement. The United States should work through the WTO dispute resolution mechanism and target specific cases that are *significant* rather than try to prosecute *every* infraction of the trade agreement. It is in the interests of both Washington and Beijing to open China's markets.

The United States should follow the lead of New Zealand and other countries and extend market economy status to China as soon as possible. The use of production costs in surrogate countries to determine whether China sold at below "cost" is highly questionable. Indeed, the nonmarket economy methodology used in antidumping cases is grossly defective and prevents China from realizing its legitimate comparative cost advantage. (The United States and the European Union recognize Russia as a market economy, even though that country began economic reform much later than China and has a lower economic freedom rating.)

Policymakers should not let protectionist interests dominate future U.S.-Chinese relations. The USCC reports send the wrong signal to Congress and to China. Instead of seeing China as a threat, Congress needs to cooperate with China in ways that are mutually beneficial. It is in China's interest to deepen and extend economic reform by opening its capital markets and allowing full convertibility of the yuan. The threat of U.S. sanctions if China fails to do so will only antagonize China and harm U.S.-Chinese relations.

Continued trade liberalization and engagement on a number of fronts, including a more liberal visa policy that permits Chinese students to study in the United States, especially law, economics, and the humanities, will have positive long-term benefits. Visa procedures should be reexamined. So long as individuals pose no threat to our national security, they should be encouraged to learn about our free society firsthand. Free trade can help normalize China and transform it into a modern economy and a civil society under the rule of law. Backsliding into protectionism cannot.

Both the USCC and the Pentagon reports imply that as China grows wealthier its military spending will increase to the detriment of the United States and our Asian allies. That danger cannot be overlooked, but the probability is small compared with the likelihood that, as the nonstate sector in China grows, the Chinese Communist Party will lose power and political reform will ensue.

China is a normal, albeit sometimes difficult, rising great power. China's behavior can sometimes pose challenges, but the country is not a dangerous

threat to U.S. security. China's military spending is a tiny fraction of U.S. defense spending. It will take decades before China can even come close to current U.S. spending levels. (China officially spends \$25 billion on defense, but the actual figure is \$50–70 billion. In contrast, U.S. defense spending for fiscal year 2005 is more than \$417 billion.) China's weapons systems are no match for those of the United States—although China is making a serious effort to modernize its armed forces.

The Taiwan Question

The most serious potential flashpoint in relations between the United States and China involves the status of Taiwan. China is primarily concerned with its domestic stability and with Taiwan's ultimate return to the motherland. The United States should insist that China use peaceful means to settle the Taiwan question. Despite Beijing's objections, the United States should remain willing to sell Taiwan the weapons it needs for its own defense. However, policymakers should reject proposals to extend diplomatic recognition to an independent Taiwan or to significantly increase official contacts between the U.S. and Taiwanese governments. Such measures would only provoke the PRC and strengthen hardliners in Beijing. Under no circumstances should the United States intervene with its armed forces to defend Taiwan from the PRC. Such a war would be enormously dangerous and would, at the very least, poison U.S.-Chinese relations for decades.

The best available means of bringing about a peaceful resolution to the Taiwan issue is to further liberalize trade relations between the mainland and Taiwan. During the past 10 years, Taiwan has committed more than \$80 billion to Chinese projects and now ranks as the fifth-largest foreign investor in China. Taiwanese investors have a strong incentive to maintain peace to increase their own prosperity. Likewise, they have an incentive to have direct trade, transport, and postal links with the mainland. The sooner those links are established, the better the chance for a cooperative solution to the Taiwan question. U.S. policymakers should recognize that reality.

As a free society, Taiwan obviously has no incentive to become part of the PRC at this time. But if liberal economic policies on both sides of the strait continue, then China may undergo the quiet revolution that has occurred on the island. In that case, a peaceful solution to the Taiwan question could be realized. U.S. policymakers should foster that process.

Taiwan's accession to the WTO, following in China's footsteps, is a positive development that offers hope for the future.

Forging a Constructive Relationship

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. 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. The primary goal of U.S. foreign policy should be to further the liberalization trend in China by maintaining a cooperative, constructive relationship. The most direct means of achieving that goal is closer trade ties.

China has benefited most not from Western aid but from trade. As Ma Yu, a senior research fellow of the Chinese Academy of International Trade and Economic Cooperation, recently wrote in the *China Daily's Business Weekly*, "The root cause of China's high-speed economic growth . . . is the policy of reform and opening-up." Policymakers should not take any actions that would stall that process.

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, U.S. policy is drifting toward confrontation, as witnessed, in particular, by the USCC and Pentagon reports. That 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.

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 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 mixture 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 nuclear weapons and ballistic missile programs and has facilitated multilateral negotiations on the North Korean nuclear crisis. At the same time, China's relations with Japan, the Philippines, and some other oceanic neighbors are less friendly, and Beijing still 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 reelection of Taiwanese president Chen Shui-bian has agitated Beijing, and there is growing evidence that the PRC's patience on the reunification issue is beginning to wear thin. That is a matter of concern, but the top priority of the United States should be to stay out of a PRC-Taiwan armed conflict if one should erupt. Beyond that, the United States should take no position on the question of reunification.

China's Changing Tide

Economic liberalization has put cracks in the edifice of the Chinese state. Individuals have more personal space than they did before the growth of the nonstate sector, and a nascent civil society is developing outside of political society. Politics does not dominate everyday life as it did

during the Cultural Revolution. As Wang Dan, one of the leaders of the 1989 democracy movement, wrote in the *Asian Wall Street Journal* (May 31, 2004): “Since the early 1990s, shoots of civil society have begun to sprout within China. As more Chinese enter the private sector, the state is no longer able to control every aspect of daily life in the way it used to.”

Whether China will go all the way to a true free-market system remains highly uncertain. Private property and capitalism are a threat to the survival of the Chinese Communist Party. To help China make the transition to a more open society, 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 and at the same time protects 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?

Ultimately, the creation of real as opposed to pseudo markets in China will require the full recognition of private property rights. The 1999 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, as is the March 2004 amendment to Article 13 that makes “the lawful private property of citizens inviolable.” Moreover, for the first time, the PRC Constitution (Art. 33) explicitly mentions human rights: “The state respects and protects human rights.”

But, like all rights in the constitution, they lack any credible enforcement mechanism. There is no independent judiciary or high-level constitutional commission to safeguard either persons or property. And although the National People’s Congress Standing Committee has now established a low-level working group to investigate some breaches of the constitution, this body will be unable to have any real impact as long as the CCP maintains its monopoly on power.

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.

Constitutional Provisions to Protect Property Rights

- “The state protects the lawful rights and interests of the private sector” (Art. 11, sec. 2).
- “The lawful private property of citizens is inviolable” (Art. 13).
- “The state respects and protects human rights” (Art. 33, sec. 3).

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.

Liu Junning, an independent scholar in Beijing, gave the best concise answer to the question of whether China will be a constructive partner or an emerging threat. 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.

Recommended Readings

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