Managing Policy Toward China Under Clinton: The Changing Role of Economics

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Preface

This work was supported by the RAND Center for Asia-Pacific Policy to advance understanding of how U.S. policy toward China is determined. It should be of interest to government and corporate decisionmakers in the U.S. and Asia, as well as academic researchers and other observers of the policy process.

This paper was originally prepared in December 1994 and has been updated in some sections to reflect events affecting U.S.-China relations during the first half of 1995.
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Summary

In May 1994, President Clinton announced a dramatic shift in the United States policy toward China. In sharp contrast to the position he took a year earlier, the President delinked China's trade status with the United States from its record on human rights. The main objective of this study was to analyze the forces inside and outside the U.S. government that accounted for this reversal of policy and to forecast the prospects for the new policy in facing the challenges of U.S.-China relations in the future.

The analysis presented in this paper is partly based on confidential interviews conducted with officials and staff in Congress and the executive branch, including members of the National Security Council, the National Economic Council, the Departments of State, Commerce and Defense, and the Office of the United States Trade Representative. The author also consulted with officials from previous administrations and other knowledgeable observers of the policy process. This research was augmented by a careful reading of newspaper accounts and other reporting on developments in U.S. policy toward China.

The study draws several principal conclusions. First, major shifts in attitudes occurred within the three sectors with the most immediate stake in China policy: the commercial, human rights, and security communities. Although views within and across these communities were not unanimous, a broadly shared consensus emerged over the first year of the Clinton administration. The consensus focused on China as a critical opportunity for American business, an acknowledgment that the current policy was not achieving its desired effects, and a realization that future Chinese cooperation in security matters was imperative. Concurrently—and in part due to these changes in stance—Congressional sentiment also began to favor increased engagement with China. These alterations, in turn, led to changed attitudes within the Clinton administration which, in turn, prompted a reorganization of the policy process and a change in policy.

Second, specific business pressure did not cause the policy changes. However, aided by a media bullish on the China market, business did successfully articulate to Congress and the Executive Agencies the potential risks of continuing a punitive policy towards China. As support grew for the argument that increased rather than decreased interaction with the Chinese government was more likely
to lead to change in human rights practices in China, the Clinton administration was forced to adjust the way it made policy in order to give proponents of engagement—namely, those in the economic and security bureaucracies—increased weight in the policy process. As a consequence, these shifts reduced the influence of proponents of a human rights litmus test for continued trade and interaction with China. Barring another significant shift in attitudes, economic interests are likely to retain increased weight in future deliberations over U.S. policy toward China.

Finally, the report concludes that the road ahead for U.S.-China policy will not be a smooth one. Despite President Clinton’s attempt to construct a more balanced policy, his failure to articulate an overall vision for China policy leaves the policy vulnerable to domination once again by a single interest. Though there is reduced risk that small-scale violations of human rights will derail U.S.-China relations, the relationship remains highly prone to a reversal sparked by contention over U.S. relations with Taiwan, proliferation of military technology to Pakistan or Iran, or a major human rights violation, such as repression of Chinese dissidents. The realignment of power in the Congress following the 1994 elections is fostering a peculiar left-right alliance, with Republicans pressing China on Taiwan and security issues and Democrats attacking human rights conditions in China.

In addition, increased commercial interactions are certain to spur new conflicts over economics. In contrast to the rosy optimism that prevailed during 1993 and 1994, the tenor of media reports on business prospects in China has become much more negative. The dominance of economic interests over human rights, against this background of troubling publicity, could lead to a pattern of escalating economic friction that mirrors U.S. policy toward Japan.
Acknowledgments

The author would like to acknowledge very able research assistance by Kirsten Speidel. The entire project benefited from the contributions of Michael Swaine, Co-director of the Center for Asia-Pacific Policy. Extensive comments on earlier drafts were provided by Dr. Swaine, Ms. Speidel, Jonathan Pollack, and Rachel Swanger. Without their contributions, this paper would be much weaker in both substance and presentation.

Much of this analysis is based on interviews conducted with staff and officials in the Clinton administration, the executive agencies, and Congress. A few of the interviewees were former officials or other knowledgeable observers. We thank the sources who spoke with us confidentially. Throughout this paper, references to interview sources contain only the date of the interview.

During this project, the author consulted with David M. Lampton, who graciously shared his research on these issues. The methodology of this paper and Dr. Lampton’s work have much in common, although they were conducted independently. Specific analyses or sources provided by Dr. Lampton are noted in the footnotes.

This work benefited from the contributions and discussion of Donald Henry, Mike Mochizuki, Edward Keating, Norm Levin, Samantha Ravich, Scott Harris, and participants in seminars in Tokyo, Seoul, Washington, DC, and Santa Monica. The author appreciates the support and comments of the members of the RAND Center for Asia-Pacific Policy Advisory Board and Corporate Council. Several of the interviewees also provided additional comments and discussion.
1. Introduction

President Clinton's campaign for the presidency was guided by the principle that the economy was paramount. His commitment to the primacy of economic policy, led President Clinton early in his administration to create the National Economic Council (NEC). The NEC was to share responsibility for shaping policy within the White House with the long-established National Security Council (NSC). Yet in the first year of the Clinton administration, the U.S. relationship with the People's Republic of China failed to reflect the President's commitment to the primacy of economic interests. President Clinton's first major decision on China policy linked China's economic relations with the United States to progress on human rights, a decision widely seen as subordinating economic interests to moral ones.

During the second year of his administration, however, President Clinton undertook a dramatic shift in the U.S. policy toward China. In a reversal of his 1993 decision, the President delinked China's trade status with the United States from its record on human rights. This paper analyzes the forces inside and outside the U.S. government that accounted for this shift in policy during the spring of 1994, and assess the longer-term prospects for the new policy in facing potential challenges that will arise in future U.S.-China relations.

China policy represents an especially challenging factor in U.S. foreign policy because of the need to balance three competing priorities with well-organized and vocal interests behind them: economics, security, and human rights. Today it is unlikely that a domestic U.S. consensus will coalesce on any single element of policy, as it did on security during the Cold War. But this lack of consensus on the appropriate emphasis of U.S. policy places an even greater demand on the President to articulate a hierarchy of goals for U.S. foreign policy and for the U.S. relationship with China.

This paper begins by recounting a brief history of the U.S.-China relationship during the first two years of the Clinton administration as background for the subsequent analyses. Throughout the period analyzed here, economic issues played an important role in shaping the U.S. policy debate, and ultimately, in the decisions reached within the senior policy circles of the Clinton administration. Between 1992 and the middle of 1994, most media and scholarly reports on China's economy were highly favorable. The dominant theme was that China's
market was growing rapidly and that U.S. firms risked losing a major opportunity to firms from Japan and Europe unless U.S. policy changed. As U.S. politicians sought a simple message to convey major policy choices, they seized upon these reports. The first-hand experiences of Senators and Representatives also helped convince many in Congress to favor an expanded relationship with China. Officials in the administration were also convinced of the need to engage China to further U.S. commercial and security goals.

But despite the growing sentiment in support of a U.S.-China relationship that avoided linking trade to human rights, the administration was not able to move rapidly toward a new policy, because the policy process was still dominated by individuals who placed greater weight on the human rights component of the relationship. However, the bureaucratic balance of forces shifted abruptly when the heads of the economic agencies, the Secretaries of Commerce, Agriculture, and the Treasury, and the U.S. Trade Representative, intervened more actively in the process when the Secretary of State proved unable to make progress with the Chinese. The failure of the policy process to smoothly adapt to shifts in public and Congressional perceptions was a result of fragmentation within the State Department, as well as the limited, but important, influence of U.S. business.

The policy that ultimately emerged is based on the widely accepted logic that commercial development supports progress in human rights and security. The new policy has resulted in substantial government efforts to promote exports of U.S. firms, although serious problems remain in the implementation of commercial policy toward China. Some of those problems are inherent in commercial dealings with export-oriented rapid developers like China, with a lack of market access for U.S. firms symbolized by a rising trade surplus with the United States. But other problems can and will arise from other aspects of the relationship.

The absence of overall vision for the U.S.-China relationship, however, leaves the current policy open to risks from all sides. Events in non-commercial domains could once again cause a single, narrow interest to dominate China policy. This possibility is greatest for Chinese violations of agreements on nuclear nonproliferation, somewhat less in Taiwan relations, and least in the area of human rights. In addition, the Republican ascendancy in Congress following the mid-term elections increases the risk that the policy will once again undergo another major shift.

During the first six months of 1995, U.S policy toward China has been dominated by one or another dimension of the relationship, first conflicts over market access and intellectual property rights, now tensions over admitting Taiwan President
Lee Teng-Hui to the United States to attend a reunion at Cornell University. Just as it was in the summer of 1993, the U.S.-China relationship is beginning a downward spiral that may plunge very deep. Just over the horizon are potential sanctions against China for aiding military development programs in Pakistan and Iran.

In addition, since late 1994, the tenor of media reports on China’s economy has become decidedly less positive. The press frequently highlights the difficulties that U.S. and foreign firms face in securing contracts in China, in understanding ambiguous rules of trade, and in overcoming bureaucratic resistance to foreign direct investment. These real issues, and the public perception of them, will tend to lead American negotiators to take more confrontational policy positions such as their stance on China’s accession to the World Trade Organization (the successor to the GATT regime) and the Section 301 negotiations over intellectual property rights in late 1994 and early 1995.

2. President Clinton’s Changing Policy Toward China

During the 1992 presidential campaign, Bill Clinton criticized President George Bush for “coddling China,” citing his accommodating stance toward China in the years following the 1989 Tiananmen incident. Less than two years later, however, President Clinton signed an executive order implementing a policy toward China very similar to that of President Bush. But the general similarity of policy masked many complexities and subtle differences in the Clinton administration’s handling of China policy, and foreign policy as a whole.

During President Clinton’s first months in office, he had to make a determination on the extension of Most Favored Nation (MFN) trading status to China. Despite its preferential-sounding name, MFN status means access to the common prevailing level of U.S. tariffs, rather than much higher standard tariffs, which very few countries face. Each May under the terms of the Jackson-Vanik Amendment to The Trade Act of 1974, the President must issue an Executive Order recommending whether or not to extend MFN status to non-market economies. While the Jackson-Vanik Amendment was originally intended to pressure the Soviet Union to permit Jewish emigration, after the Tiananmen

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incident in 1989, it came to be used as a Congressional tool to influence China policy. For “non-market economies” that restrict emigration, Jackson-Vanik requires an annual Presidential Executive Order recommending MFN status for the 12 months from July 1 to June 30. Congress retains the right to pass a motion of disapproval, even if the President recommends extension of MFN.

In May 1993, President Clinton issued a package of documents extending China’s MFN status one year, but setting specific conditions on human rights for future extensions. While this tactic deferred the tough decision about revoking MFN, it laid the groundwork for a host of problems in the U.S.-China relationship. U.S. observers, including the business community, generally viewed the MFN extension as a positive development because it continued MFN status for one year. The conditions it attached were restricted to the human rights domain. Issues relating to security, foreign policy, and trade might have been included, but were not. The Chinese, however, focused on the negative aspects of the President’s decision, characterizing the conditional nature of the MFN extension as a strong U.S. challenge to Chinese sovereignty.

Not surprisingly, the summer of 1993 was a low point in U.S.-China relations. During that summer, the U.S. and China were in conflict over at least four major issues: Beijing’s bid to host the Olympics in 2000, the search of the Chinese ship Yin He for chemical weapons precursors, Chinese underground nuclear testing, and alleged Chinese sales of M-11 missile technologies to Pakistan.

In this poisoned atmosphere, the U.S. was unable to negotiate productively with the Chinese over any aspect of the relationship. Intelligence findings that China had transferred technology to manufacture M-11 missile systems to Pakistan, possibly in violation of the Missile Technology Control Regime (MTCR), presented a particular problem for relations. Though China had not signed the MTCR protocol, it had agreed to abide by its provisions, including not transferring covered weapons technology to proscribed countries. But the Chinese disputed that the MTCR applied to the M-11 system, because the finished missile’s range may fall short of the minimum range defined for coverage in the MTCR. For this and other reasons, there was great controversy within the U.S. government over how to proceed. Even within the State Department, there was disagreement about how serious the alleged violations were and whether the intelligence evidence was valid enough to implement sanctions under the MTCR. Nevertheless, the Undersecretary of State for Security Affairs, Lynn Davis, had a retaliation list drawn up to respond to the purported MTCR violation.
In doing so, the Undersecretary’s actions appeared to violate the statutory procedures prescribed for MTCR sanctions, which required consultation with other agencies. Though the sanctions would impose export restrictions on a number of categories of U.S. high technology goods, they were formulated without consulting with the Department of Commerce Export Control Office, the U.S. Trade Representative, or the Department of Defense.\(^2\) In response to these sanctions, the Chinese Central Bank canceled a $250 million satellite contract with U.S. firms.

The Clinton administration tried to repair damage to the relationship without success. Several attempts to establish constructive communications with the Chinese culminated in the March 1994 trip of Secretary of State Warren Christopher to Beijing. Secretary Christopher’s visit to Beijing was highly unsuccessful in engaging the Chinese, and even humiliating to the Secretary. In part, the failure can be attributed to a lack of coordination within the State Department. Shortly before the visit, Assistant Secretary of State for Human Rights John Shattuck met with noted Chinese dissident Wei Jingsheng in public, angering Chinese officials and embarrassing the Secretary of State, who was not aware of the Assistant Secretary’s plan to visit with Wei.\(^3\) The U.S. emphasis on human rights already had turned the Chinese away from productive discussions; Shattuck’s meeting with Wei made the Chinese all the more resistant to the U.S. demands for progress on human rights.

Two months later, however, the President admitted that China had not made “overall, significant” progress in human rights as required by the 1993 executive order, but nonetheless announced that China’s MFN status would be delinked from human rights. Not only had the President reversed his position of a year earlier, but his decision was upheld by essentially the same Congress that had rebuked President Bush for a similar policy stance.

Although the President’s decision seemed at sharp variance with his 1993 stance, a closer examination of groups inside and outside the U.S. government shows evidence that their attitudes and positions were shifting much more gradually toward a progressive view of MFN renewal, especially over the two years immediately prior to the President’s decision to delink MFN. Though these shifts did not make the President’s decision inevitable, they illuminated the growing pressures in the administration to recast its policy.

\(^2\)Interview, October 21, 1994.
\(^3\)Interview, October 22, 1994.
3. Basic Shifts in Underlying Attitudes

During the first year of the Clinton administration, the attitudes underlying the basic positions of the core constituencies with a stake in U.S. policy toward China—commerce, human rights and security—shifted substantially. Over time, these shifts were reflected in Congress and in the executive agencies. The policy process in the executive branch, however, failed to take full account of these shifts during this period.

3.1. Attitudes Shift Gradually

Attitudes within the commerce, human rights, and security bureaucracies had been shifting for several years. By early 1994, important representatives of all three communities were arguing in favor of an expanded relationship with China, pressing the President not to allow the U.S.-China relationship to be captured by a single issue, as it had been by human rights during the Bush presidency and the early Clinton presidency.

*Commercial Community Emphasizes the Lure of the China Market*

The commercial community concerned with U.S.–China relations included U.S. businesses and the agencies in Washington charged with commercial policy, especially the Departments of Commerce and the Treasury, the U.S. Trade Representative, and offices within the State Department. In addition to U.S. businesses, consumer interests also exerted some influence on U.S. policy. Consumers stood to benefit from the relaxation of trade barriers in general. In the case of China, higher U.S. tariffs on Chinese goods would have increased consumer prices for apparel, shoes, toys, electric products, and many other goods imported from China. Because of market pressures, the prices of all goods in these classes would have risen, whether made in China or not.

Through most of 1993, the business community, finding itself in the disadvantageous position of seeming to place profits above people in China, was unable to mount a convincing and coherent campaign for renewal of MFN. Consequently, the debate over renewal of the provision was largely framed by human rights advocates who succeeded in putting business on the defensive in the public debate. In 1994, a more organized commercial community was to have much more success in influencing policy.
Beginning in 1993 and continuing through 1994, the allure of the China market captured the attention of the news media, public opinion leaders, and office holders. China was increasingly characterized as a market of over 1 billion new consumers. Its expanding economy had seemingly insatiable demands for investment goods like machinery, power generation facilities, and transportation equipment all areas in which U.S. firms were eager to compete. Impatient to participate in the booming China market, business capitalized on this opening offered to them by the media to recharacterize their message.

Taking its cue from the Clinton administration's emphasis on job creation, business interests began drawing an explicit link between participation in the lucrative China market and American jobs. One example of the commercial community's new strategy was the showcasing of the Boeing plant in Seattle during the November 1993 APEC meetings. During the tour, Boeing proclaimed that one in seven planes produced in 1994—by American workers—would go to a Chinese airline. The message was clear. Trade with China contributed to the well being of leading U.S. firms and to American prosperity in general.

Various U.S. government agencies reinforced these favorable views of China's market potential by issuing several classified and unclassified papers on the subject. Among those in the public domain, two papers stand out. In early 1994, the General Accounting Office prepared a report on the importance of China trade and U.S. government programs to promote or hinder trade with China. At about the same time, the Congressional Research Service prepared a paper on the costs of withdrawing MFN from China. There were also other, classified, executive branch papers on these subjects in early 1994. Several sources cited influential predictions from the U.S. and Foreign Commercial Service, summarized in Table 1. These projections show the ten most important sectors for U.S. exports to China. Throughout the debate over the importance of China's market, these sectors were mentioned repeatedly. Documents and analyses like these combined with business and consumer forces to emphasize the importance of China's market to U.S. interests.

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7 Interview, October 19, 1994.
Table 1

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<tr>
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<th></th>
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<td>Aircraft and Parts</td>
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<td>440</td>
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<td>-12%</td>
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<tr>
<td>Building Products</td>
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<td>1,400</td>
<td>185</td>
<td>3%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

**Human Rights Community in Disarray**

In contrast to the coherence in the business community, by early 1994 the human rights community was deeply divided over the proper approach toward China. Indeed, some Chinese dissidents who earlier had advocated sanctions, reversed their views in 1994. Responding to these changes, elements of the U.S. human rights community began to support the proposition that economic progress promoted human rights in China. This argument stated that as people in China earned more income, and had more contact with the rest of the world, they would cause the Chinese system to value individual rights more, and thus help curb the human rights abuses of the government. While many human rights advocates began to see the validity of this reasoning, many others continued to press for some form of trade sanctions by the U.S. as a tool to pressure Chinese leaders to advance individual freedoms in China. But because the human rights community could not unite behind a single message, as it had in 1993, human rights interests did not find broad support in the executive branch or in Congress.

**Security Community Presses for Cooperation**

Defense decisionmakers were increasingly vocal in putting forth their priorities, as well. The security community was united in its priorities and effectively exercised its influence on the policy process during 1994. China's rapid economic development provided the basis for it to begin a selective modernization of its military forces. This, in turn, allowed China to assume greater prominence both regionally and globally. In light of growing Chinese defense capabilities, the U.S. Department of Defense, together with some elements in the State Department, argued that the United States should strengthen bilateral military and security interactions to build confidence and cooperation.

Secretary of Defense William Perry was a particularly important actor in this process. Since he had a relationship with the Chinese military reaching back to the late Carter Administration, he had a keen interest in reopening defense ties. He therefore appealed directly to the President not to take actions which might endanger Chinese cooperation on security issues, which had tentatively resumed only in November 1993 after their cessation following Tiananmen in 1989. The United States was particularly desirous of Chinese cooperation to resolve growing tensions with North Korea over Pyongyang's nuclear program, but it
extended to other areas as well. China’s veto power in the U.N. Security Council also bolstered the argument that the United States should accommodate China where possible in order to secure Chinese support of (or at least acquiescence to) U.S. initiatives. More broadly, the U.S. defense officials argued that increasing interactions with China would enhance stability in East Asia.

3.2. Shifts Reflected in Government

Reverberations from the shifts in attitudes toward China in the commerce, human rights, and security communities were felt in the executive and legislative branches throughout 1993 and 1994. As a consequence, there was a slow, but perceptible shift in both Congressional attitudes and in the Clinton administration as a whole.

Shifts in Congressional Opinion

Three major forces influenced the shift in Congressional opinion. First, the political dynamics in Congress changed when President Clinton took office. Second, members of Congress took a fresh look at China, many by actually visiting the country. Third, the steady flow of positive analysis of China’s importance to U.S. interests helped to change members’ views.

Under the previous administration, Congressional Democrats enjoyed the opportunity to press President Bush on human rights, certain of President Bush’s veto on any sanctions against China. When President Clinton came into office, that Presidential veto was no longer certain. Deprived of this safety net, members of Congress began to behave in a manner more in accordance with their actual beliefs.

One catalyst for change in Congress was a surge in the number of Senators and Representatives visiting China to observe the country firsthand. In the period between December 1993 and January 1994, about 60 Congressional members visited China. For some, these visits were an opportunity to express publicly their privately-held views about the importance of trade with China. For others, though, the visits caused a genuine shift in opinion about the strength of the Chinese economy, its importance to the United States, and the improvement in personal freedoms resulting from the economic boom.

In addition to direct experience, the favorable publicity about China’s economy in the press and in reports prepared by government agencies reinforced lobbying efforts by business groups to inform as many Senators and Representatives as possible of the connection between China’s market and U.S. employment.

**Shifts in Administration Thinking**

Two major arguments served to shift opinion in the executive branch on China policy over the first year of the Clinton presidency. These arguments revolved around the commercial attractiveness of China’s market and the political attractiveness of China’s potential security cooperation.

The arguments of the U.S. business lobby combined with the undeniable lure of the China market to convert some in the Clinton administration. The attraction of the China market was widely discussed in the executive branch, especially as government and non-government studies were prepared and released in early 1994. These studies drew, in part, on data from the U.S. and Foreign Commercial Service, which enhanced the credibility of the analysis. It was harder to dismiss these government reports than ones prepared by outside, and potentially biased, business or trade groups.

In addition to commercial considerations, security needs played a prominent role in molding opinions within the administration. In general, Secretary of Defense Perry wanted a U.S. policy that made security cooperation with China possible. U.S. defense officials believed that Chinese cooperation was essential to resolving the North Korean nuclear problem. China’s veto power in the U.N. Security Council increased the importance for U.S. foreign policy of preserving a positive relationship with China. Furthermore, Secretary Perry desired a relationship in which the U.S. military could again begin to interact with the Chinese military at many levels. Without a more balanced U.S.-China relationship that sort of interaction was not likely.

These combined security and commercial influences convinced many officials in the administration that China policy should be more balanced, rather than focused primarily on the negative aspects of the relationship such as China’s human rights record.

**4. Policy Process Fails to Respond Smoothly**

However, the shifts in opinion within the administration and Congress were not fully reflected in the policy process in early 1994. This section first identifies the
participants in the policy process at the time, then uses this framework to examine how the policy process initially failed to respond to the shift in views. We will then examine how a revamped process produced a new policy in April and May 1994.

4.1. Participants and Roles in the Policy Process

The Executive Branch policy process serves two vital purposes: to air conflicting views on the formation and implementation of policy and to forge consensus on policy, subject to the President’s directives.

To accomplish these purposes in previous administrations, the National Security Council (NSC), acting on Presidential authority, would draft guidance, called a Policy Review Directive, on each policy issue. The Policy Review Directive furnished the basis to convene an interagency working group to debate and refine the policy details. Then the consensus document would be returned to the NSC for presidential signoff in the form of a Policy Decision Directive. This Policy Decision Directive would guide the interagency working group in formulating the details of implementation. The NSC would act as the honest broker during the review phase, mediating disputes among agencies. During the implementation phase, the NSC would act as the President’s enforcer, compelling obedience to the directive by the affected agencies.

President Clinton implemented his desire to raise the prominence of economics in policy by establishing the National Economic Council (NEC), co-equal with the NSC. The exact duties and responsibilities of the NEC, however, were not clearly specified during the early part of the Clinton administration, and its position complicated the lines of authority in the interagency deliberative process, as seen in Figure 1. Instead of a single organization to serve as an honest broker and enforcer, the President’s move created two agencies with that purpose, attempting to divide responsibilities along functional lines. But, as the China policy case shows clearly, it was not possible to divide policy neatly into economic and non-economic components, since each aspect of the policy necessarily supported or weakened the other aspects.

Even with this division of responsibilities within the White House, the interagency working group for China policy could have resolved the competing demands in its own forum. This interagency group was formed soon after President Clinton took office and was known as the Senior Steering Group. The Senior Steering Group was led by Assistant Secretary of State for East Asian and Pacific Affairs Winston Lord and Deputy National Security Advisor Samuel
(Sandy) Berger. Most of the members of the Senior Steering Group were Assistant Secretaries from the agencies concerned with China policy level (the principal participants shown in Figure 1).

In 1993, the Senior Steering Group crafted the policy linking extension of MFN status to progress on human rights. To produce the executive order that the President signed in May 1993, the group mediated demands from business, human rights groups, the security community, and various influential members of Congress.


The Senior Steering Group continued to manage U.S. policy toward China in early 1994 much the same way it did in 1993. The leaders of the group, Assistant Secretary Lord and Deputy National Security Advisor Berger, both continued to support linking human rights with trade, despite the difficulties in achieving progress under that policy encountered since May 1993. Supporting these day-to-day leaders of the policy process, Secretary of State Christopher and National Security Advisor Anthony Lake remained primary advocates for human rights and thereby buttressed the views of the Senior Steering Group.

But there were several pronounced limitations to these arrangements. The group failed to respond to the major shifts in opinion in the commerce, human rights and security communities. Perhaps more importantly from the President's point of view, the Senior Steering Group did not report the shift in Congressional sentiment to officials at higher levels in the policy process.
Figure 1 — The Executive Branch Policy Process
For many policies, the White House directly communicates with Congressional interests to gauge the sentiments of the House and Senate. But for China policy, the White House expressly asked the Senior Steering Group to assess Congressional sentiment for a new policy toward China. Because of State Department control of the Senior Steering Group, this task was assigned to the Congressional Liaison office in the State Department. This office badly misread the views in Congress. The staff spoke primarily to the most fervent human rights advocates, such as Representative Nancy Pelosi, to assess whether a majority in Congress would support a delinked policy. Although the State Department was by no means a single opinion, the focus on extreme human rights supporters pervaded the entire Department. Many policymakers in the State Department, especially at the Assistant Secretary level, claimed that a complete backdown on linking trade to human rights would lead to a major backlash from Congress. These Assistant Secretaries wanted to retain some sanctions since they were concerned about losing face with the Chinese if the United States backed down too far.\textsuperscript{10}

During the first three months of 1994, the same individuals and organizations that had controlled the policy process in 1993 continued in place. They seemed poised to generate a policy once again linking trade with China to human rights conditions. But after the Secretary of State returned from China in March 1994 having failed to persuade the Chinese to work constructively with the Clinton administration, the policy process went through a major change.

\section*{4.3. Economic Agencies Impel Change: March-May 1994}

In early 1994, many forces were moving in the same direction, notably, increasing business influence, changes in Administration and Congressional sentiment, and Chinese resistance to the MFN linkage policy. It is difficult to pinpoint the exact combination of forces that triggered the policy change. But there was a clear chain of events which advanced sentiments in favor of changes in the policy process. That new process incorporated more diverse views and produced broad support for a policy of engagement with China.

Immediately upon Secretary Christopher's return from Beijing, the cabinet secretaries of the economic agencies went to the White House to press for a major

\textsuperscript{10}These assertions were made by a number of interviewees inside and outside the administration, especially in the interviews on October 18, 20, and 22, 1994.
shift in China policy. Specifically, the Secretaries of the Treasury, Commerce, Agriculture, and Energy Departments, along with the National Economic Advisor and the U.S. Trade Representative argued that the policy process was not serving the interests of the President or the nation. They consulted key Senators and Representatives, who called the State Department’s practice of relying on the views members of Congress with the most extreme views (especially on human rights issues), “out of control.”

About the same time, on March 15, 1994, The Council on Foreign Relations held a hearing to air views mostly in support of delinking MFN from human rights. The chairs of these hearings, former Secretaries of State Cyrus Vance and Henry Kissinger, sent a personal communication to President Clinton in early May, along with a summary of the hearings held in March. This public airing of dissent by a prominent bipartisan group held the administration’s policy up to even greater scrutiny.

In the middle of March 1994, as a result of the behind-the-scenes pressure on the White House, a new joint NEC/NSC team was formed by National Security Advisor Anthony Lake and then-National Economic Advisor Robert Rubin with their deputies Samuel (Sandy) Berger and Bowman (Bo) Cutter in charge. The new team was designed to represent all aspects of U.S. interests in China in a balanced fashion. This team took account of the broad Congressional support for a policy of engagement with China, as well as the changed opinions in the executive branch to craft the key elements of the new policy. The most important policy element fashioned by the joint NEC/NSC team was delinking China’s trade status (MFN) from human rights.

Despite evident broad support for this change, the President was concerned that the most vocal advocates of human rights were not convinced that delinking was the soundest means to advance U.S. interests. He spent several hours on the final day before the announcement with Representative Nancy Pelosi trying to persuade her that delinking MFN from human rights was the best course for U.S. policy. Although she did not agree with the President’s position, she was not able to rally sufficient Congressional support to override the Executive Order. The clear delinking survived several Congressional attempts to override or modify the President’s policy. It is notable that supporters of the administration

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11 Interview, October 20, 1994.
14 Interview, October 17, 1994.
were able to prevent all bills opposed to the policy from coming to a floor vote until August 1994, some three months after the President’s announcement of delinkage. Even then, these bills failed to pass in either the House or the Senate.

Seizing upon the Secretary of State’s failed overture to the Chinese as a vivid example of how and why the 1993 policy was not serving U.S. national interests, the economic agencies alerted the President that a new policy was needed. They were successful in reorienting the direction of the policy process, in part, because of the strong connection between access to China’s booming market and the creation of U.S. jobs. This connection was well-established in the minds of both policymakers and the general public because of business lobbying, increasing first-hand observation of China, and the many media reports.

Because the existing policy process directed by the Senior Steering Group had been dominated by human rights advocates. As a result, the administration had to create a new group, housed in the White House itself, to develop and implement the new policy. The value of the U.S. relationship with China, the poor condition of that relationship, and the impending need for President Clinton to issue the 1994 executive order on MFN renewal justified placing day-to-day responsibility for China policy within the White House.

4.4. Focus on the State Department and Business Influence

In order to use the lessons from the analysis of the policy process laid out thus far to understand the determination of future policies, it is useful to focus on two important actors in the policy process: the State Department and the business community. Both actors encompass many diverse components, and it is generally difficult to characterize them in simple behavioral terms. Though this analysis will focus on the State Department and the business community, the lessons it derives are applicable to the much broader U.S. government policy process, during the Clinton administration, and beyond.

The Fragmentation of the State Department

Many of the difficulties in formulating a more coherent and systematic approach to China policy stem from the widening gap between regional specialists and functional specialists in the State Department. This has been a persistent source of tensions in previous administrations, but the tensions seemed especially acute early in the Clinton administration.
To cite two examples, the process of formulating the MTCR sanctions and the Beijing visit of Assistant Secretary John Shattuck demonstrate that various offices within the State Department were not coordinating plans with each other. In the first case, Undersecretary Lynn Davis did not consult with the required offices in formulating the MTCR sanctions. These two actions reflected frustration with the Chinese attitude toward the administration's position on human rights, as well as the poor functioning of the internal policy process in the administration. In the second case, as noted previously, Secretary Christopher was not informed that Assistant Secretary Shattuck was planning to meet with Wei Jingsheng just before the Secretary's visit to Beijing. In both of these cases, the lack of coordination and communication hampered the administration's effectiveness at crucial times in the U.S.-China relationship.

Continuing a trend evident before President Clinton took office, State Department bureaus and offices responsible for security, human rights, and economics have frequently failed to interact effectively with one another and with the regional offices. The divergence within the State Department places demands on higher levels in the policy process to assimilate diverse views and coordinate effective policy. This type of fragmentation can also be seen in the Department of Defense, and to a lesser extent, in other government agencies.

Though this division is perhaps understandable, it is highly counterproductive in policy terms. Assistant Secretary Lord talked about a balanced policy toward China in his confirmation hearings, but he did not represent a balanced view in the 1993 or 1994 policy deliberations. Ironically, even though his position nominally enabled him to represent the regional specialists for Asia and the Pacific, he did not allow those regional specialists a main voice in the policy process. Because of his focus on the human rights aspects of U.S. policy, he did not serve as a conduit for the views of specialists within his bureau to the interagency working group. This severely hampered the presentation of knowledge and expertise about China during the policy deliberations.

The isolation of regional specialists, therefore, had serious consequences for the policy process. President Clinton was reading books on China right up until the last minute, to try and obtain some new insight into the issue. In part, this was evidence of the President's style in making decisions. But it also revealed how poorly the President was served by the deliberative process in his administration.

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15 Interview, October 22, 1994.
16 Interview, October 21, 1994.
17 Interviews, October 18 and 20, 1994.
18 Interview, October 22, 1994.
Even though the divergence within agencies is not particular to this administration, the forces driving the divergence in views inside agencies can be overcome by strong leadership at the Cabinet level. The multiplicity of actors requires the Secretary of State, in particular, to integrate the judgments and knowledge of various offices, thereby ensuring the State Department a strong and active role in the decisionmaking process. A weak State Department role means that expertise vitally needed for effective decisionmaking has been largely lacking in crucial policy decisions.

The Role of Business

Throughout recent history of U.S. relations with China, business influence has been episodic and indirect. In the period studied here, specific business pressure did not cause significant policy changes. But the business community did successfully articulate the stakes of the China market to Congress and to the Executive Agencies. It was bureaucratic and political actors, however, who bore primary responsibility for the modification of policy.

One important episode illustrating business influence occurred in the aftermath of the MTCR sanctions and retaliation which affected satellite exports to China. In response, a major satellite manufacturer, Hughes Aircraft, demanded access to the administration. In a hastily arranged meeting, Michael Armstrong, CEO of Hughes, impressed upon Vice President Gore that the State Department sanctions had jeopardized 20,000 high-paying jobs in Los Angeles. The administration was particularly sensitive to this characterization, since the President had campaigned on a platform to promote domestic employment. In addition, California was critical to the President’s election in 1992, and will be equally critical in 1996.

The Commerce Department and U.S. businesses expended significant effort to make the M-11 retaliation restrictions as narrow as the MTCR would permit, rather than the more general sanctions that the State Department preferred. State Department officials were angry that the Commerce Department and business interests could modify policy with the implicit support of the President. The motivation for the administration to narrow the sanctions was to promote the widest possible export of high-technology goods without a major political battle in Washington. With broad sanctions on satellite technology, U.S. firms stood to lose hundreds of millions of dollars in sales. The narrower sanctions proved a

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19Interview, October 20, 1994.
20Interview, October 17, 1994.
hindrance to U.S. firms, but a far smaller one than the original State Department version would have been.

In this instance, business concerns exerted substantial influence over policy, although they could not modify policy to fully satisfy the businesses affected by the sanctions. However, the policy battle to change the overall U.S. posture towards China was fought primarily in bureaucratic organizations and transpired largely because of the failure of the State Department to consult publicly with other agencies. But business influence was an important catalyst in highlighting the risk to U.S. interests.

Normally, the executive policy process reflects much less business influence. Administration officials complain that even when core interests of U.S. businesses are directly threatened by specific policy decisions, such as the recent intellectual property rights negotiations, government officials find it difficult to motivate business representatives to articulate their case in Washington.\textsuperscript{21} Considering the importance of economics in the President’s policies, it is ironic that the business community does not seem better able to capitalize on the administration’s policy stance to advance its vital interests.

5. The New Policy: Strengths and Weaknesses

Changes in the policy process helped bring the United States back from the brink of confrontation with China. Barring another crisis on the scale of Tiananmen, these changes have reduced the likelihood that the U.S.-China relationship will rupture over human rights. By increasing the relative weight that the economic agencies exercise over China policy, the Administration has reduced the opportunities for human rights advocates to dominate the process. However, as the recent confrontation over the granting of a tourist visa to Taiwan President Lee Teng-Hui proves, the relationship frequently seems prone to excessive instability. Even absent major human rights violations, there remain many areas where the relationship appears vulnerable to reversal or sharp deterioration.

Much of this instability can be attributed to the policy process itself. Despite some improvements, there is still much that is inadequate in the formation of U.S.-China policy. For instance, though interagency communication seems to

\textsuperscript{21}Interview, October 21, 1994.
have increased, a pronounced absence of true coordination persists. The limited reliance on formal consultative mechanisms is also a major hindrance to effective coordination. One such mechanism is the Trade Policy Review Group (TPRG), charged with interagency coordination of policies supporting trade, market access, and intellectual property rights. The TPRG was designed in the Trade Act to be the interagency discussion forum for actions by the USTR. The TPRG has served to coordinate among agencies and has worked well in previous administrations. Currently the TPRG is not functioning, causing interagency consultative functions to become dependent on the informal contacts between mid-level officials at various agencies. When officials fail to use these informal channels, the policy process as a whole suffers.

This lack of coordination enhances the roles of certain agencies. In particular, because of its small size, highly effective structure, and motivated personnel, the Office of the U.S. Trade Representative has attained unusual prominence in policy. Its effectiveness at pursuing its goal of fair access for U.S. business in foreign markets derives from powerful legislation in Section 301 of the Trade Act of 1974. Section 301 requires the USTR to investigate discriminatory market practices that place a burden on U.S. industry and, when necessary, to impose severe retaliatory tariffs. The threat of potential retaliation gives the USTR considerable leverage in negotiations. This leverage is bolstered by the current murky policy environment because negotiating partners are unsure how far the United States will go in pursuing commercial goals, especially when these goals conflict with other stated U.S. policy objectives.

This lack of coordination stems, at least in part, from the President’s failure to articulate an overall vision for the U.S.-China relationship, and to place it more clearly within a hierarchy of goals for U.S. foreign policy. The lack of a clear policy vision for the U.S.-China relationship also exposes the policy to many risks. Much of the risk inherent in the present policy that could be managed by a national consensus on commerce, security, and human rights. The lack of this national consensus leads to differing expectations of what the present policy will achieve over the next few years. Some of these expectations are bound to be disappointed, whether by the evolution of commercial relations between the United States and China, or because of a single issues area that threatens to once again drive U.S. policy.

Without a hierarchy of goals, the limits on specific initiatives remain unclear. The policy appears to splinter into individual agencies pursuing their own

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22Interview, October 21, 1994.
agendas. For example, in military to military dealings, there is only a limited sense of what the Defense Department can incorporate in its dialogues and broader initiatives with the Chinese military.

On the success side of the equation, the new interagency process has resulted in an increase in high-level official contact with China. The cabinet-level trips to China by Commerce Secretary Brown and Defense Secretary Perry were discussed within the new process. Energy Secretary Hazel O’Leary’s trip to China in February 1995 resulted in contracts and accords for a number of large American power-generating firms potentially worth $4.6 billion. In March 1995, Ambassador Mickey Kantor, U.S. Trade Representative signed an agreement to further open China’s market to American goods.

But the lack of a specific, overall plan means the drive to complete initiatives still relies heavily on major trips by senior officials, rather than on detailed work at the staff level.\textsuperscript{23} Unfortunately, the pressure to write agreements for a cabinet secretary to sign in China or for a Chinese official to sign in the United States can lead to ineffective agreements that have not been fully reviewed within the U.S. government.

During his August 1994 trade mission to China, for example, Secretary Brown assured business leaders that the administration would not let politics put American business at a disadvantage with respect to foreign competitors. He insisted he wanted to level the playing field and even “tilt the field” in favor of U.S. businesses.\textsuperscript{24} The administration has done a great deal of trade promotion, starting even before the May 1994 decision to delink MFN.

But conflicts within commercial policy and conflicts between commercial and other China policy elements prevent the U.S. from giving business every possible advantage. In the remainder of this section, we will review how the administration is implementing commercial policy: developing a business code of conduct, improving subsidized financing, relaxing export controls, increasing trade promotion, and promoting market access. The section concludes with a detailed examination of risks to the policy from sources outside the commercial domain: proliferation, Taiwan relations, human rights, and the recent change in Congress.

\textsuperscript{23}Interview, October 18, 1994.
5.1 Implementing Commercial Policy

Conflicts with China will naturally develop in the conduct of commercial policy, even without external events to provoke it. For structural reasons, if not policy reasons, the U.S. trade deficit with China is likely to continue to grow in the future. The trade deficit is likely to be linked to questions of market access and the profitability of U.S. firms in the China market for years to come. U.S. firms will not find it easy to garner success in the China market, even if substantial progress is made in bilateral and multilateral negotiations over trade rules, transparency, and market access. With the Congress and the American people conditioned to expect short-term benefits from the U.S.-China economic relationship, there is bound to be disappointment and frustration, especially should the trade deficit rise further.

These pressures are inherent in the natural evolution of the relationship. The pressure on commercial policy could be increased by other factors. For example, if Japanese, German, French, or British companies seem to enjoy commercial success in China where American firms cannot, that will increase pressure on U.S. officials to improve the odds for U.S. business.

Developing a Business Code of Conduct

As noted earlier, a major rationale for delinking MFN for China was that engagement with China would promote human rights. During the press conference announcing his decision, the President promised “the development with American business leaders of a voluntary set of principles for business activity in China.”25 Along with other human rights measures, the business code of conduct was intended to placate the human rights community, including several vocal members of Congress.

Fearing that the development of a code of conduct could hamper U.S. businesses, the business community stonewalled the development of the code over the months following the press conference. American firms voiced concern that unilateral adoption of a code would put U.S. companies at a disadvantage vis a vis foreign firms who would not be adhering to the code’s requirements. Moreover, businesses were reluctant to grant even symbolic leverage to the U.S. government over business practices abroad. Businesses also worried that the code would be used as a weapon by the human rights advocates to pressure business in the future.

White House overtures to business suggesting they create their own draft of the code were rejected. Frustrated with the uncooperative stance of business, senior administration officials finally turned the task of developing the code language to the NEC. Under the NEC’s leadership, the Departments of State, Commerce, Treasury, and USTR participated in drafting the code of conduct.26

The minimal input of the business community consisted mainly of lobbying against what language they considered unacceptable. In particular, business was outraged by the idea that the code would be specific to China.27 On this point, business interests got their way. By September the Far Eastern Economic Review reported that “the White House [was] considering framing a worldwide, rather than China-specific, code.”28

When the voluntary code, termed a set of “model business principles” was announced at the end of March 1995, its vague wording rendered it largely devoid of meaning. Not only did it fail to satisfy human rights advocates, but business groups also found it objectionable. 29

**Improving Subsidized Financing**

The U.S. policy toward subsidizing project financing has been cited repeatedly over the years as a hindrance to U.S. business. Subsidized financing, especially for massive infrastructure projects, is frequently the key to closing major contracts in the developing world. In the wake of Tiananmen, U.S. policy restricted Export-Import Bank loans for any projects in China. As a result, U.S. businesses could not match subsidized financing deals assembled by European or Asian corporations.

Recently, many improvements have occurred in the case of U.S. Export-Import Bank loans for projects in China, but the bank’s policy is still less aggressive than business desires. The U.S. government position remains reactive. U.S. policy for all countries, not just China, dictates that the U.S. will not initiate financing subsidies. If financing authorities from foreign governments are supporting projects, U.S. policy allows a U.S. firm to obtain subsidized financing through the Export-Import Bank. This places U.S. firms at a disadvantage as they are forced to catch up to foreign competitors.

26 Interview, October 21, 1994.
27 Interview, October 19, 1994.
28 Kaye, p. 18.
Relaxing Export Controls

There is a continuing tension between the need to control proliferation of dangerous arms on the one hand and the profits of U.S. defense contractors on the other. U.S. defense industries’ technological superiority and a manufacturing capability so far unequaled in the rest of the world makes defense technology and related products potentially one of the most lucrative exports for the United States. For security and foreign policy reasons, however, many of these products face restrictions on their overseas sale. At the same time, despite continued post-Tiananmen restrictions on military sales to China, the Clinton administration has recognized and attempted to redress this obstacle. President Clinton recently acknowledged that it is legitimate for the U.S. to consider the financial health of defense industries in making decisions about which technologies should face export restrictions. Though still on a case by case basis, this position has allowed some dual-use transactions to be concluded with China. For instance, in February 1995 the Clinton administration issued a special waiver to Westinghouse Electric Corporation to sell high-technology components for a Chinese nuclear power plant.

As described above, the M-11 retaliation sanctions were modified substantially to help the satellite industry export the maximum possible amount of their products to China for launches. In addition, more general relaxations of export controls have benefited the personal computer industry, even though some significant restrictions remain on the highest technologies.

Increasing Trade Promotion

The goal of trade promotion has been increasingly manifest in U.S.-China policy since President Clinton delinked MFN for China. An early example of the renewed U.S. government commitment to assist American firms was Secretary Brown’s successful trade mission to China in August 1994. The mission served to advance U.S. business interests, but it also served to promote the U.S.-China economic relationship to the American public. According to staff familiar with the trade mission, the entire operation was orchestrated like a political campaign focused on a single issue easily understood in the U.S: access to China’s market equates to more U.S. jobs.30 The news stories were favorable, helping to buttress support for the Brown mission and the entire policy of engagement with China.31

30 Interview, October 19, 1994.
31 For example, see Hope Hamashige, “Executives Hail Trade Mission to Beijing as Highly Productive,” Los Angeles Times, September 8, 1994, p. D4.
But inside the administration there was the perception that the unresolved tensions between human rights and trade meant that the Secretary barely escaped China with his political standing intact.\textsuperscript{32}

Despite that perception, there has been no shortage of government officials willing to help specific companies and sectors to facilitate deals in China. The administration has been working from the list of key sectors for exports to China (listed in Table 1) to promote these sectors heavily. The civilian aircraft industry has worked closely with the administration to develop and publicize its business relationships in China in light of the extraordinary current and projected demand for civilian aviation equipment in China. The Secretary of Commerce has cooperated with both McDonnell Douglas and Boeing in highly publicized deals with Chinese purchasers. Less publicity has attended the government's heavy support for the power generation industry. The Commerce Department mission promoted this sector strongly, as did two earlier missions by the Energy Department and the Senate Committee on Natural Resources and Energy. This industry enjoys intense Congressional support in recognition of the potential of China's demand for power and the U.S. strength in this industry.

In addition to direct trade promotion activities, the administration is also working to improve the institutional environment for U.S. businesses to be successful in China. For example, the computer industry benefits from the tough negotiating stance of the USTR on intellectual property rights in China, which should benefit the communications, entertainment, pharmaceutical, and other knowledge-related industries.

\textbf{Promoting Market Access}

The present and future success of U.S. exports to China is not likely to reverse the growing gap between Chinese exports to the U.S. and U.S. exports to China, seen in Figure 2. This trade deficit arises from several structural factors, especially the movement of industry from European, American, and Asian countries to China. This movement effectively relabels trade deficits from other nations, such as Japan, as Chinese.

In addition, the United States and China dispute the measurement and magnitude of the trade deficit statistics, as depicted in Figure 3. Because of measurement problems and the many forces driving balance of payments accounts, the bilateral trade deficit numbers should not hold any particular

\textsuperscript{32}Interview, October 21, 1994.
significance. However, as in the case of Japan, such numbers have come to take on great meaning in debates over U.S. policy. There is ample reason to suppose that they will bear comparable weight in the case of China. The trade deficit can symbolize problems of market access for U.S. firms, as imports from China rise faster than exports to China.

As with other commercial relationships, the USTR leads the U.S. trade negotiations with China. U.S. policy has been somewhat successful in linking trade issues to other trade issues, in a way it was not successful in linking trade to human rights. Specifically, the USTR has linked China’s accession to the World Trade Organization (WTO) protocol negotiations, a multilateral issue, to bilateral U.S.-China disputes over market access and intellectual property rights.

But even this topical linkage produces problems for the U.S.-China relationship. China is expressing increasing resistance to the U.S. position, despite support for the U.S. from most of China’s major trading partners. Franklin Lavin cites examples where the Chinese negotiators believe that the U.S. is trying to force change in China to benefit the U.S.33 He suggests that the U.S. negotiators should present proposals in a win-win way, i.e., as a positive sum game. But other observers believe that the Chinese do not readily accept the notion of a positive-sum game in international relations. It is not only that U.S. negotiators need to present ideas in a more creative way, as Lavin asserts, but also that the West must convince Chinese officials that everyone can benefit from sound initiatives in trade matters, as in other domains. Until Chinese negotiators come to believe in solutions where everyone is better off, real progress in trade negotiations will be elusive.

Many Chinese officials, however, see a political design underlying U.S. policy which will erode Chinese central control and ultimately dismantle the Chinese system. Indeed, social scientists forecast that market opening will further accelerate the decentralization of Chinese government and society, leading eventually to greater personal freedom in China. Thus, in a real sense, the fears of Chinese officials are well-founded. Yet, the demands of commercial policy will continue to place the U.S. in a position opposed to the desires of Chinese leaders for stability in their control of the Chinese state.

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Figure 2—U.S. Trade with China, 1980-1993

Figure 3—U.S. and Chinese Views of the Trade Deficit
Some Chinese officials appear to believe that just as the Clinton administration backed down on the MFN-human rights linkage, it would also back down on demands for conditions on China’s accession to the WTO and on the Section 301 sanctions for intellectual property rights. Certain Chinese officials responsible for policy toward the U.S. believe that business controls policy decisions, and that business will force the Clinton administration to yield to China’s position rather than risk losing access to the lucrative China market. But this reasoning misses the fundamental difference between the MFN linkage policy and these market access issues. The MFN linkage policy attempted to connect economic and non-economic aspects of policy in a way that was fundamentally unstable.

In the negotiations over China’s accession to the WTO, the administration is very successfully linking specific economic policy elements. In particular, the U.S. wants China to establish and enforce rules for international trade as appropriate to a major international trading nation. These rules would enhance business prospects in China for all foreign companies, including U.S. firms.

Chinese behavior in breaking off the WTO accession talks supports the contention that they believe the U.S. will back down. If the Chinese expect the administration to give way easily on the issues of market access, they have not learned the basic lessons of the role of economics in U.S. policy toward China. One lesson is that business influence is indirect; another is that the framing of economic issues carries great weight in propelling the policy process. The most important lesson is that economic interests, including importers, exporters, consumers, and investors may individually support or oppose various linkages within economic policy. The fact that all these interests wanted economic policy delinked from human rights in no way means that these interests support the positions of China’s government in any general sense. Furthermore, when it comes to the terms of China’s accession to the WTO, U.S. businesses strongly support the administration’s position, as expressed by the USTR. A senior representative of the National Association of Manufacturers, one of the most important business groups, and a group that opposed the administration’s policy of linking trade to human rights, has stated:

American business is very concerned that China may be allowed to resume its seat in the GATT without making the kinds of realistic commitments that GATT membership entails. We are very supportive of the administration.\textsuperscript{35}

\textsuperscript{34}Interview with Chinese official, Beijing, December 1994.

The situation was similar in the intellectual property rights negotiations. Referring to the Chinese position in those talks, Thomas Friedman writes that "the Chinese assumed American businesses would come to their rescue and force the Administration to back down."\textsuperscript{36} In this negotiation, as in the WTO talks, the Chinese government seems to have drawn the wrong conclusions from the recent history of the U.S.-China relationship.

5.2. Risks in Non-commercial Policy Areas

The continuing evolution of commercial ties between China and the U.S. is likely to promote increasing friction in commercial areas. But those frictions would be manageable in the context of a broader vision of the entire relationship, as they are in the U.S.-Japan relationship.

But the U.S.-China relationship as a whole, including its economic aspects, remains vulnerable to frictions that have developed and will continue to develop in other areas. Indeed, in his October 1994 visit to China, Secretary Perry said, "I will stress that the military relationship is bounded by the political context, which includes human rights, and that security problems caused by proliferation damage the mutual security interests and bilateral relationship."\textsuperscript{37} This new linkage, of course, cuts both ways. The U.S. policy toward China is vulnerable to events that would cause policy to be once again determined by narrow considerations in a single area, in the way human rights defined and drove the policy until May 1994. In addition to human rights, the domains where this type of vulnerability could arise include proliferation and Taiwan relations.

Moreover, the political realignment in the Congress following the November 1994 elections has already begun to reshape foreign policy, including policy toward China.

Proliferation

The ever-present possibility of Chinese actions in violation of international nonproliferation conventions could derail U.S. policy toward China. If China continues to transfer weapons technology to Pakistan, Iran, or other nations, evidence of such transfers would very likely trigger sanctions mandated in U.S.


law. The sanctions to restrict export licenses, as in the case of the satellite sanctions, would harm U.S. businesses directly. In addition, Chinese retaliation could further deepen the damage to U.S. businesses and consumers.

The possibility of proliferation capturing the U.S.-China relationship is growing stronger as intelligence assessments are made public regarding Chinese military technology transfers to Pakistan.

Taiwan Relations

The risks to the U.S.-China relationship stemming from both the U.S. and Chinese stances toward Taiwan is altogether real. The latest downturn in U.S.-China relations seems to have begun with the June 1995 decision to permit Taiwan’s President Lee Teng-Hui to visit the U.S. as a private citizen for a college reunion at Cornell University.

More significant damage to the U.S-China relationship may ensue. Taiwan enjoys very strong support among Congressional Republicans, who could use the annual MFN review opportunity to impose trade sanctions on China in response to Chinese threats against Taiwan, or even Congressional perceptions of Chinese threats.

Human Rights

The risk of U.S. policy being driven once again by human rights has been greatly reduced as a result of changes to the policy process in March 1994. But, a major human rights violation, possibly involving Chinese suppression of Tibetan nationalist demonstrations or other human rights causes, could spark reaction from the White House and Congress, both of which have strong support for Tibet and the Dalai Lama. The recent arrest of U.S. citizen and human rights advocate Harry Wu by Chinese authorities is already strengthening the position of human rights advocates in Congress.

Change in Congress

The Republican majorities in the House and Senate would seem to portend a smooth China policy, since the present policy is similar to the Bush policy. But the elections reveal a more important trend: members of Congress advocating narrower, and more domestic-oriented, issues. The increased opposition to free trade in the new Congress is just one example of this trend. As Chair of the Senate Foreign Relations Committee, Senator Jesse Helms is already establishing
a confrontational posture toward the President over foreign policy. This posture is heightening tensions between the U.S. and several Asian nations, including China. Although the rise of the Republicans diminishes the support for human rights in foreign policy, a peculiar left-right alliance is arising to pressure China on Taiwan relations from the right, and human rights from the left.

The Annual MFN Renewal Process

The annual MFN renewal appears to have passed without major confrontation for 1995. Policy, however, continues to be constrained by the annual MFN renewal requirement, and the ever-present threat of Congress overriding the President's decision to extend MFN for China. As a matter of practice, if not a matter of law, two-thirds majorities in Congress can prevent the extension of MFN status or effectively attach any conditions at all to the extension of normal trading status with China.

6. The Role of Economics in Future U.S.-China Relations

Over the first two years of President Clinton's term, economic reporting about China played a significant role in shaping opinions in the American public, in Congress, and in the administration. These reports set the stage for a major shift in the administration's policy toward China, resulting in a new policy in May 1994 to delink trade with China from human rights considerations.

The business community has an important influence on the U.S. government policy process when it can successfully articulate a simple coherent message, such as the message that trade with China promotes jobs in the United States. But business groups are not powerful enough to work without support from other communities and government. In the short term, at least, government policy is made by a few people who are able to act on personal convictions. Those policies are allowed to endure in spite of antithetical views inside and outside government when the President is not paying attention to the issue, when authority in the policy process is unclear, and when the policy process lacks an overall vision to guide it. Despite the clarification of U.S. policy toward China during 1994, the administration has not remedied any of these basic weaknesses in the policy process.
The new China policy is at risk because it seems to promise simultaneous progress on economics, human rights, and security as a result of basing the U.S.-China relationship on commercial ties. But progress on human rights and security will come slowly, even though the underlying logic that economic relations advance other aspects of the relationship is true over a long period of time. A more immediate risk stems from the expectations engendered by the positive reporting about China’s market, which helped make the new policy possible by breaking the linkage between human rights and trade. The heightened expectations for U.S. firms to participate in the growth of China’s market will take many years to realize.

Already, the focus of articles on China’s economy has shifted from emphasizing the opportunities for foreign firms to describing the obstacles to foreign firms wanting to conduct business in China. These obstacles include regulations that are not published, rules that companies cannot comprehend or operating principles that change at the whim of Chinese officials. Other points of contention include China’s official support for state-owned manufacturers, arbitrary limits on rates of return for infrastructure projects, and intellectual property piracy of all types.

These negative aspects of the economic relationship have been reported in the media throughout the first half of 1995, just when the U.S.-China relationship seems to lurch from one crisis to another. As the year started, friction escalated over intellectual property rights and China’s accession to the WTO. Recently relations have been dominated by the U.S. decision to allow Taiwan President Lee to visit the United States. At the present time, evidence of Chinese violations of international treaties on nonproliferation may be just days away from capturing the relationship.

Despite the improvements in 1994, the U.S. and China remain poised on the precipice of downward spiraling relations, largely because the President and his cabinet have failed to articulate and defend a comprehensive vision of China’s place in the world and America’s relationship with an emergent China. Now that media reports of business activities in China are emphasizing the difficulties facing American firms and the challenges of doing business in a complex market with underdeveloped legal and economic institutions, the administration must work doubly hard to convince the American people of the United States’ long-term interests in maintaining a relationship with China as China seeks to gain acceptance as one of the world’s great powers.
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