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Abstract

This book investigates the changing nature of US power at the level of world order using US relations with the People's Republic of China in the 1990s as a case study. It is argued that US hegemony has given way to a period of dominance in which these neo-liberal policy objectives of the US state are increasingly realised via the structural power of global institutions and the ideological preferences which underpin them; the cultivation of regional trading blocs; and the material power of the US state as conceived in more traditional terms. This neo-Gramscian assessment of US power is accompanied by the idea that political agency is required to satisfy policy goals under conditions of globalisation. State policy is thereby understood as the product of a political process involving US civil society and non-state actors rather than a given entity.

The chapters of the book flesh out the methods by which the US has sought to promote a liberal trading order in the light of China's emergence as a global power and the various areas of consensus and disagreement between the two nations. This takes the form of analysing five major thematic areas of the relationship which include assessments of the historical evolution of US-China relations; the political economy of US-China trade; the role of social forces (civil society) in US-China relations; environmental aspects of the relationship; and the impact of regionalism on US-China relations. Overall, the intention is to problematise the view that the relationship can still be broached in conventional state-centric terms which play down new structural conditions underpinned by the onset of economic globalisation and more multilateral forms of power.

In many senses, the thesis entails a novel approach to the political economy of relations between two of the world's foremost powers by placing analysis within the context of neo-Gramscian critical theory. It concludes by noting that though US structural power remains considerable in the post-hegemonic era of the 1990s and beyond, the rise of China may induce moves, for better and perhaps worse, to a more multilateral world order.

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Introduction

This thesis investigates the changing nature of US power at the level of world order in connection to US relations using the People's Republic of China in the 1990s as a case study. It is argued that US hegemony has given way to a period of dominance in which the neo-liberal policy objectives of the US state are increasingly realised via the structural power of global institutions and the ideological preferences which underpin them; the cultivation of regional trading blocs; and the material power of the US state as conceived in more traditional terms. This neo-Gramscian assessment of US power is accompanied by the idea that political agency is required to satisfy policy goals under conditions of globalisation. State policy is thereby understood as the product of a political process involving US civil society and non-state actors rather than a given entity.

The chapters of the thesis flesh out the methods by which the US has sought to promote a liberal trading order in the light of China's emergence as a global power and the various areas of consensus and disagreement between the two nations. This takes the form of analysing five major thematic areas of the relationship which will be discussed towards the end of this chapter. Overall, the intention is to problematise the view that the relationship can still be broached in conventional state-centric terms which play down new structural conditions underpinned by the onset of economic globalisation and more multilateral forms of power.

This introductory chapter is organised as follows. Firstly, we consider the dominant approach to the study of US foreign policy but note the changing nature of the debate as to how US foreign policy, and particularly the US state, is conceptualised. Secondly, this chapter considers the evolving US-China literature noting, where necessary, the ways in which the critical theoretical approach developed in our first chapter constructively builds upon what has gone before. Thirdly, the chapter sets out the methodology used in the writing of this thesis and provides a summary of each chapters content. Let us firstly look at some of the dominant approaches to US foreign policy.

US Foreign Policy

The most prevalent approaches to the study of US foreign policy have been essentially statist in that they have given priority to political agents whether they are Presidents and their closest advisory bodies or the wider foreign policy bureaucracy. In the first category a sizable literature and sub-discipline of foreign policy analysis based around Presidential management in foreign policy has evolved.¹ Much of the analysis here focuses upon the individual style and characteristics of Presidents² and the impact this has on the management of foreign policy crises. Whether a President delegates power (as did Reagan) or involves himself in the minutiae of policy detail (as did Carter) is given great consideration in this literature. Methodologically, this approach is congruent with both

¹ See for example R E Neustadt, *Presidential Power: The Politics of Leadership*, New York, John Wiley, 1960. For a recent appraisal of Presidential power and particularly the constraints on a president in a post-hegemonic world see Richard Rose, *The Postmodern President* (second edition), New Jersey, Chatham House, 1991.

liberal and realist approaches to US foreign policy by prioritising the actions of the individual president and also by elevating the role of the president as the embodiment of the 'national interest.' That said, there can be little doubt that US foreign policy is profoundly shaped by the political outlook of the president and his understanding of the world - this is not in dispute. However, the role of Congress as well as wider national and international factors must also be taken into account if studies of the presidency are to avoid charges of reductionism as regards their empirical remit.

The second literature noted here gives great credence in the making of US foreign policy to the vast foreign policy bureaucracy. Halperin has characterised bureaucracies as actors within the US state which possess a life of their own and which reach decisions as a result of 'pulling and hauling' between competing interests.³ Bureaucratic actors engage in 'turf wars' relating to which agency/department gains control of a specific foreign policy initiative. Compromise on US foreign policy decisions are, thus, reached by pragmatic means rather than the pursuit of programmatic rational policies. Again, this approach accounts for the role of political agency in the making of foreign policy and also provides perceptive insights into why the US state so often espouses conflicting and contradictory policy positions. Theories of bureaucratic politics also elucidate the extent to which the bureaucratic process can hinder Presidential prerogative in foreign policy making. The weakness in the two approaches discussed above is their negation of the role of society in the making of foreign policy and, more specifically, their negation of the role of material

² See for example F I Greenstein, "The Presidential Leadership Style of Bill Clinton: An Early Appraisal", *Political Science Quarterly*, No. 108, Winter 1993-94, pp.592-610.

³ See M Halperin, *Bureaucratic Politics and Foreign Policy*, Washington DC, 1974.

factors. The role of private business in influencing the campaigns of presidents and their foreign policy decisions is not taken fully into account. There also exists, with regard to the bureaucratic politics literature, a conspicuous failure to ask why certain bureaucratic agencies carry more weight than others in the first place. As stressed above, the balance of material forces within US civil society as well as issues of identity and class are given short shrift. In this sense, the above approaches are contiguous with realist approaches to the US state in the sense that they conceive the state as solely comprising the apparatus of government. In the realist approach, of course, foreign policy is about the rational pursuit of the national interest and defining ways in which US power can be maximised and secured in competition with rival states.⁴ The vigorous and ongoing debate about the changing nature of US foreign policy following the Cold War is downplayed by realists in favour of a theory of systemic continuity and thus realists have little to say about the impact of domestic economic and social forces in the formation of US foreign policy.

A more satisfactory understanding of US foreign policy is to conceive it as comprising a multitude of interests and identities competing for influence across the state-society nexus. John Gerard Ruggie has moved the debate forward considerably by positing an approach to which takes account of the disparate groups which compete for influence across the state-civil society nexus. For Ruggie this involves a 'multiculturalist' understanding of the US nation-state.⁵ Central to Ruggie's view is a new conception of American nationalism which is cognisant of plural interests. To quote Ruggie, "there is a certain congruence

⁴ See J Chace, *The Consequences of the Peace*, Oxford, Oxford University Press, 1992

⁵ JG Ruggie, *Winning the Peace: America and World Order in the New Era*, New York, Columbia University Press, 1996, p.168.

between the vision of world order invoked by American leaders when 'founding' a new international order has been at stake, and the principles of domestic order at play in America's own understanding of its own founding, in its own sense of political community."⁶ Thus at the present historical juncture there is a direct correlation between the search for a more multilateral world order and the increasingly contested nature of US foreign policy with its own distinct yet, in civic terms, interdependent ethnic lobby groups. For Ruggie, "the choice for US policymakers in such an environment is between fragmenting relevant areas of foreign policy along and ever-larger number of ethnic lines or transforming ethnically defined preferences into multilateral directions."⁷ The reconceptualisation of US foreign policy as a product of civic nationhood as opposed to organic nationhood means that US foreign policy is constantly in the process of being defined in relation to wider US society. Ruggie's approach also gives us a theory of agency rather than assuming the state is fixed as in realism or solely the reflection of economic structures as in conventional Marxism. As this thesis makes clear in chapter 4, pluralism is something which must be taken seriously in US foreign policy. Even if overall policy outcomes often reflect powerful economic interests this does not entail the dissolution of alternative political strategies. State theory, more broadly conceived, is discussed in more detail in chapter one.

The approach developed in this thesis also ascribes great importance to a structural interpretation of US foreign policy as being dominated, though not controlled, by

⁶ J G Ruggie, "Interests, Identity, and American Foreign Policy", in JG Ruggie, *Constructing the World Polity: Essays on International Institutionalisation*, London, Routledge, 1998, p.206.

⁷ *Ibid*, p.220.

economic interests. Non-reductionist Marxist theories of the state are also valuable in explaining US foreign policy. In the structuralist view the balance between class fractions in US civil society also reflects upon the pursuit of US foreign objectives with elite interests (primarily those representing capital) exerting disproportionate influence and stifling democratic debate. As Offe has noted, the capitalist state exerts quasi-autonomy in the political sphere (i.e. state personnel are not necessarily affiliated to the ruling class) but is functionally dependent on capitalist activity for its own legitimacy. In this sense US foreign policy has to satisfy those constituencies which prop it up as well as the independent agenda of state managers.⁸ This approach dovetails with the neo-Gramscian explanation of US hegemonic power outlined in chapter one. The neo-Gramscian view of the state, in common with Ruggie's approach noted above, adds the notion of ideas to the materialist interpretation of US foreign policy. Thus it makes a huge difference if a Presidential candidate is unilateralist in outlook, like Reagan, or internationalist like Clinton. At stake is the difference between aggressive and egoistic US foreign policy and the cooperative and consensual US of which Ruggie writes approvingly. Politicians are not simply what Michel Foucault called 'docile bodies' manipulated by economic and social forces beyond their control but cultivators of agendas albeit within fixed parameters set by the mode of production. Let us now turn to a review of the existing US-China literature.

US-China Relations

US-China relations have yet to be examined from a critical-theoretical perspective as developed in chapter one of this thesis. Importantly, existing approaches do not tend to

⁸ C Offe, "The Theory of the Capitalist State and the Problem of Policy Formation" in L Lindberg *et al* ,

place the relationship within a global context or to raise questions concerning the ways in which bilateral relations fit in with the process of structural change in the world economy and the set of dominant interests upon which that global economy is premised. Thus they miss the crucial interaction between structure and agency so instrumental to the overall unfolding of policy. It is this lacunae in the existing literature which our theoretical approach attempts to overcome. Lets evaluate that literature in order to illuminate some of its deficiencies as well as areas which can be constructively built upon in the context of our critical approach.

An extremely important contribution to the recent US-China literature is Rosemary Foot's *The Practice of Power: US-China Relations Since 1949*. Though Foot does not focus upon the contemporary period as such she correlates China's growing participation in global institutions with US power and the ability of the US to influence the nature of China's participation in global institutions. Particular attention is devoted to the impact of US structural power in the global economy since 1979. Bilateral trade rose from \$2.3 billion in 1979 to \$17.8 billion by 1989 while, according to Foot, US market power became more crucial in facilitating China's application to join GATT from 1986 onwards. Equally, US investment became ever more crucial to China reaching \$1.6 billion by the end of 1988.⁹ Foot argues that China's absorption into the global economy has legitimated the World Bank and the IMF as "truly global institutions, blunting the charge that they

Stress and Contradiction in Modern Capitalism, Lexington, 1975.

⁹ R Foot, *The Practice of Power: US-China Relations Since 1949*, Oxford, Oxford University Press, 1995, pp.237-38.

were instruments of capitalist exploitation.”¹⁰ In short, China’s retreat from isolation and desire to enter the international community enhances global capitalism and, by extension, bolsters the US position in relation to China. The main problem with Foot’s analysis is that it remains overtly state-centric and does not give credence to sub-state actors within the US state-society complex or take on board that there is much toil within the US political system prior to the formulation of China policy. While her analysis explains Cold War relations adequately it misses some of the changes which have taken place since 1989 as the nature of US hegemony has changed. The role of new social forces is downplayed and the US ‘state’ is viewed as merely comprising bureaucratic actors in Washington who deal with their counterparts in Beijing. While maintaining Foot’s emphasis on structural power in the world economy and the ways in which economic interdependence has eroded China’s ability and willingness to develop autonomously the thesis which follows also attempts expand upon her understanding of the state.

Robert Sutter and Seong-Eun Choi have developed a study which explicitly looks at the role of the US in China’s development as a global economic power. They note that accommodation with the US in the 1980s ended China’s foreign policy of self-reliance - a fact reinforced when China entered APEC and attempted to join the WTO in the 1990s. Interestingly, Choi and Sutter note that in the 1990s China came to view the world as multipolar rather than multilateral - i.e. involving several great powers in a game of power brokerage. The authors also bring attention to the distrust which exists among Chinese leaders regarding interdependence and the fact that those nations ‘setting the agenda’ in

¹⁰ *Ibid*, p.242.

multilateral fora are viewed as 'serving their own interests.'¹¹ Nevertheless, Sutter and Choi note that economic modernisation has become the 'linchpin of political legitimacy' with 80% of commodities distributed through market channels by the 1990s.¹² Overall, the approach of the book is multi-dimensional in that it covers areas of US-China relations from US missile sales and human rights to the environment. The latter issue is considered with brevity and refers only to the environmental malaise in China rather than analysing the impact of environmental issues on US-China relations. The main criticism of the study has to be that it is devoid of a theoretical underpinning as such though most of the empirical material is approached as it would be from a more or less realist position. Unlike Foot's work there is no definition of US power brought to bear on the empirical work though Sutter and Choi do successfully link the domestic settings of Chinese and US politics with global factors.

Ezra Vogel's recent contribution to the US-China literature provides a largely policy-oriented take on such issues as human rights, trade, and the role of domestic forces in the relationship. Written for the American Assembly the book is aimed at helping "American political and thought leaders to create a coherent long-term vision of the policies needed to advance America's national interests and values."¹³ Most arguments advanced in the book support the Clinton Administration's policy of constructive engagement and China's fuller participation in multilateral institutions. As such, the book represents something of a

¹¹ RG Sutter with Seong-Eun Choi, *Shaping China's Future in World Affairs: The Role of the United States*, Boulder, Westview, 1996, p.35.

¹² *Ibid*, pp.60-61.

¹³ D Sharp, Preface, *Living with China: US-China Relations in the Twenty-First Century*, New York, WW Norton, 1997, p.13.

confluence between realist balance of power sentiments and liberal internationalist arguments pertinent to the intrinsic value of international cooperation. David Lampton, for instance, argues in favour of the fact that “international cooperation with China has been most productive in instances in which not only is Beijing part of the group making the rules (for example, at the World Bank, the IMF, the United Nations Security Council, and various environmental undertakings such as the Montreal Protocol), but also where resources are made available to help China address problems of concern to the global community.”¹⁴ Lieberthal’s contribution to the volume, meanwhile, goes beyond realist evaluations of the relationship and attempts to account for the role of domestic forces in the relationship. Lieberthal argues that the US-China debate must be taken beyond “terms that imply that each country acts as a unified body with identifiable interests.”¹⁵ Again, this takes the study of US-China relations towards a deeper view of the state and the social forces that underpin its functioning though Lieberthal operates firmly within a pluralist/liberal framework rather than offering any structural explanation as to the balance of US policy. Significantly, this volume also contains a contribution on the possibility of cooperation between the US and China over environmental matters. This again goes beyond realist arguments and looks to the possibility of the two countries forging mutual interests in the context of Chinese development policies and the levels of pollution which inevitably accompany industrialisation.¹⁶ The argument in McElroy and Nielsen’s chapter on the environment, however, tends to reflect liberal preferences by ignoring the nature of the environmental debate at the global level and particularly some of

¹⁴ D Lampton, “A Growing China in a Shrinking World: Beijing and Global Order”, *Ibid*, p.139.

¹⁵ K Lieberthal, “Domestic Forces and Sino-US Relations”, *Ibid*, p.234.

the biases of the environmental regimes established at Rio. Nevertheless, the authors provide a platform for assessing a new set of issues in the US-China debate which will be considered in chapter 6 of our thesis.

Gordon CK Cheung has set out a novel world-economy approach to the study of US-China relations. Cheung draws on the concept of Augmented Market Liberalism (AML) to explain the unfolding of US-China relations in the post-war period. Cheung defines this concept as “a process of assimilation and transformation of a country generated by the externalisation effect of market forces.”¹⁷ Thus US-China relations are understood within an explicitly international political economy context which takes the post war institutional architecture created by the US as its backdrop.¹⁸ Moreover, changes in US-China relations are linked to the process of structural change in the world economy thereby placing a relationship often understood in a diplomatic context within a framework of capitalist development. It is argued that market liberalism’s main vector in the contemporary period has been the WTO through which “market force becomes a point of intersection in US-China foreign relations.”¹⁹ The WTO issue also ties China’s overall development to US foreign policy preferences in a deeper sense than in the purely bilateral context. Cheung argues that the Clinton Administration’s policy of comprehensive engagement is an outgrowth of the strategy of tying China to international institutions - the belief that ‘multilateral surveillance’ will modify certain domestic Chinese policies as will exposure to

¹⁶ MB McElroy and CP Nielsen, “Energy, Agriculture and the Environment: Prospects for Sino-American Cooperation”, *Ibid*, pp.217-253.

¹⁷ G CK Cheung, *Market Liberalism: American Foreign Policy Toward China*, New Brunswick, NJ, Transaction, 1998, p.1.

¹⁸ *Ibid*, p.25.

market forces.²⁰ There is a risk in Cheung's argument that politics are given rather short shrift and genuine areas of disagreement are overlooked. For instance he argues that issues such as Taiwan, intellectual property rights disputes and the dispute over MFN may be "perceived from other convergent points of view" so long as "we use larger scales of measurement such as marketisation and China's involvement in the world economy."²¹ The main problem with Cheung's analysis, then, is that he treats the concept of AML as if it were inevitable and fails to ask questions relating to opposition to this trend in China and the US. Moreover, he clearly fails to link the concept of AML to the discourse of globalisation which, as will be noted in chapter one of this thesis, cannot be understood as simply a debate about homogenous free markets. In short, his analysis is ultimately fairly conventional in the sense that market liberalisation driven by a powerful US is seen as an uncontested phenomena.

Robert G Sutter has contributed another significant addition to the contemporary US-China literature which considers the role of interest groups in the relationship. Sutter draws on Robert Putnam's "two-level game" approach to US foreign policy in which "the US government seeks to maximise [its] own ability to satisfy domestic pressures while minimising the adverse consequences of foreign developments."²² This leads Sutter to examine the role of disparate interest groups involved in the making of US foreign policy and again highlights the fact that no single national interest prevails. Particularly important

¹⁹ *Ibid*, p.97.

²⁰ *Ibid*, p.106.

²¹ *Ibid*, pp.124-25.

²² R G Sutter, *US Policy Toward China: An Introduction to the Role of Interest Groups*, New York, Rowman and Littlefield Publishers . Inc, 1998, p.21.

is Sutter's account of the forces which have sought revocation of MFN and their lack of internal cohesion in stark contrast to the business community.

Robert Ross's edited collection of essays on US-China relations after the Cold War offers another key contribution to recent scholarship on US-China relations though it offers little in terms of novel theoretical insight. Ross's own contribution keeps faith with his earlier book which argued that US-China cooperation since 1972 was based on strategic relations rather than on any deeper form of understanding.²³ Steven Teles contributes an interesting chapter on the role of public opinion and interest groups in the making of China policy. This includes discussion of the role of high profile publications and environmental lobbies. Again, the book does not follow any specific theoretical line of inquiry.

The recent edited work of James Shinn offers a policy oriented analysis of relations and covers issues from 'economic engagement' to regional security. Like Vogel's contribution to the literature, discussed above, Shinn is not overly concerned with discussing the ideational and ideological basis of US foreign policy nor why certain interests prevail over others within the Administration. Shinn's own contribution argues in favour of China's entry to the WTO as a means of defusing ideological disputes and setting the relationship within a more pragmatic context while also encouraging the selective application of sanctions in order to assure "additional liberalisation" and the

²³ R Ross, *Negotiating Cooperation: The United States and China, 1969-1989*, Stanford, CA, Stanford University Press, 1995.

implementation of existing accords.²⁴ Overall, the book says too little about domestic factors in conditioning relations nor does it go into empirical detail about the interaction of the two economies.

Perhaps the most important work to date on trade and economic issues in US-China relations is provided by Nicholas Lardy and is drawn upon at some length in chapter three of this thesis. Lardy, building upon his groundbreaking analyses of the Chinese economy and its relation to the US in the 1980s²⁵, argues that China should be accommodated into the global political economy as speedily as possible and, most importantly, he places economic relations within the context of globalised production raising questions about bilateral approaches to studying the relationship.²⁶ While agreeing with Lardy's basic argument our thesis raises some of the problems with the neo-liberal view that the global economy is somehow neutral in the dispensation of benefits as well as some of the key obstacles to market opening within China.

It is just such arguments which are raised by Susan Shirk in her analysis of China's opening to the global economy. Shirk convincingly argues that incremental reforms have meant China avoiding the 'big bang' which afflicted many Eastern European economies causing hyper-inflation and massive unemployment. Shirk also outlines the institutional backcloth of market opening in China and the willingness and ability of government

²⁴ J Shinn, *Weaving the Net: Conditional Engagement of China*, New York, Council on Foreign Relations, 1996, p.59.

²⁵ See N Lardy, *China's Entry into the World Economy: Implications for Northeast Asia and the United States*, Lanham, MD, University Press of America, 1987.

²⁶ N Lardy, *China in the World Economy*, International Institute of Economics, Washington DC, 1994.

agencies such as the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) to facilitate foreign penetration of the China market.²⁷ Particularly useful is Shirk's focus on the coalition of export industries and coastal provinces which have lain the path of market opening often at the expense of inland provinces. The thesis which follows asks questions about the contradictions between the cautious approach to market opening advocated by Shirk (now a member of the Clinton Administration) and the US encouragement of deregulatory policies which, if implemented, would have exposed the Chinese economy in a similar way to Eastern Europe. A more critical approach, then, highlights the frequently incongruous nature of policies designed to engender market stability and those concerned with market stability.

There are also several works on Chinese foreign policy which give due weight to US-China relations from the 1970s onwards and which append a regional and global context to their analysis. John W Garver has written a general account of Chinese foreign policy which takes on board the importance of China's shift from a quasi-alliance with the US in the late 1960s and the 1970s to an 'independent' foreign policy in the 1980s, and the breakdown of an "intra-US" consensus in the 1990s following the Tiananmen Square massacre.²⁸ Garver's account does, however, play down the political economy of relations in the 1970s and 1980s and tends to concentrate on security issues to the detriment of trade.

²⁷ For an early espousal of Shirk's approach see S Shirk, "The Domestic political Dimensions of China's Foreign Economic Relations" in S Kim (ed), *China and the World: Chinese Foreign Policy in the Post-Mao Era*, Boulder, Colo, Westview, 1984. See also S Shirk, *How China Opened its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, Brookings, Washington DC, 1994.

David Shambaugh has orchestrated an important collection of essays detailing the evolution of US scholarship on China and which contains material highly relevant to US-China relations.²⁹ Much of the content is aimed towards China specialists rather than anyone using China as a case-study for US foreign policy but certain sections of the book are highly relevant. The chapter by Robert Ross and Paul Godwin is particularly useful in accounting for the 'international sources of foreign policy' and relating them to China's participation in world order. Ross and Godwin note that a literature has evolved since the 1970s which explicitly attempts to place analysis of China in a global context and, specifically, within the context of those global institutions over which the US exerts so much power. Of particular relevance is Samuel Kim's work on the attitude of China towards world order principles³⁰ and also the work of Michel Oksenberg and Harold Jacobsen on Chinese negotiations to enter the IMF and the World Bank.³¹ As Ross and Godwin aver, such work delves into an under-researched area which straddles the divide between bilateral and multilateral relations.

An excellent guide to understanding China's changing political face over the past two decades is contained within Andrew Nathan's collection of essays, *China's Transition*. Particularly relevant is Nathan's essay in chapter 5 on Chinese democracy. Nathan unmasks some of the illusions of democracy promoters in China who believe that

²⁸ JW Garver, *Foreign Relations of the People's Republic of China*, Prentice Hall, Englewood Cliffs, New Jersey, 1993. See chapters 3 and 4.

²⁹ D Shambaugh (ed), *American Studies of Contemporary China*, ME Sharpe, Armonk, New York, 1993.

³⁰ S Kim, *China, the United Nations, and World Order*, Princeton, Princeton University Press, 1979.

democratic polity can take root as a western-style mass movement. For Nathan, “almost every [Chinese] political movement tried to garb itself in the mystique of democracy, but what they usually had in mind by democracy was a mystical solidarity of state and people, in fact a kind of authoritarianism.”³² Nathan’s normative argument is that human rights should be judged solely on the basis of international law and should not be conflated with “other goals” such as the liberation of Tibet. In this way, he argues, China is more likely to ratify the two UN human rights covenants while such an approach will also have the effect of bringing pressure to bear on the US to enter the regime more fully itself. Nathan also advocates US use of the WTO and the World Bank to ensure Chinese compliance with human rights as well as making bilateral summits a condition of Chinese progress. The main thorn in the side of Nathan’s arguments is his downplaying of economic factors in the US-China relationship especially ones which consider US dominance at the level of world order. Western values are also transferred through the market and, in this sense, China already complies with certain basic human rights. The thesis which follows argues that they would be strengthened further through more regulation of the WTO with regard to environmental and workers rights.

Conclusion

³¹ See HK Jacobsen and M Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order*, Ann Arbor, University of Michigan Press, 1990.

³² AJ Nathan, *China's Transition*, New York, Columbia University Press, 1997, p.66.

This thesis is largely based upon secondary material though it also incorporates primary material and a number of semi-structured elite interviews conducted in Washington. The secondary material utilised consists of books, journal material, newspapers, magazines and so on. The testimony of key political and business figures is also drawn upon as is Congressional testimony on US-China relations, the minutes of relevant conferences and speeches as well as press releases. Chapter three makes particular reference to the empirical work of Nicholas Lardy and though supporting his thesis that US trade with China has to be understood in terms of globalisation and the structure of regional trade we dispute his neo-liberal conclusion that free trade alone is likely to ameliorate problems in the bilateral relationship. Interviews conducted at the US Department of the Treasury back up our hypothesis that political intervention by the Chinese government remains necessary. Chapter five also builds on themes already introduced by Sutter, above, relating to the role of interest groups in the relationship. Our approach is, however, more concerned with the structural position of business. Chapter six of this thesis builds upon the radical premise set out by Shiva, Newell and Paterson and others that existing environmental regimes preclude far reaching cooperation between the US and China on this issues. The possibility of enhanced cooperation, however, is not discounted and our interviews back up this view. Our basic argument here is that the environment will become an increasingly crucial area of bilateral relations given the role of both nations in setting the agendas of global environmental regimes. Let us now set out a basic outline of the chapters which follow and the themes which they introduce.

The first chapter sets out a multi-faceted theoretical framework drawing on four evolving areas which, it is argued, overlap in a theoretically useful way. The first section draws primarily on Robert Cox's neo-Gramscian theories of international political economy as a method of overcoming the dichotomy between structure and agency in the global economy. The neo-Gramscian approach also introduces the critical concept of hegemony to IPE as a means of assessing shifts in US power at the level of world order. The second section utilises state-society theory to account for state action under new and complex conditions and gives equal weight to pluralist, Marxist and elitist theories of the state within a 'converged' approach. In the third section historical-sociological approaches are looked at as a means of explaining the continued salience of nationalism and cultural identity as sources of state power in the world system which, though irrational, can bolster the state's geo-political role. Lastly, globalisation theory is discussed in its 'hyper-liberal', 'skeptical', and 'transformationalist' forms. The transformationalist approach neither celebrates nor rejects globalisation but treats it as an ongoing process marked by national and regional disparities. This approach corresponds most closely with the line taken in subsequent chapters. Globalisation theory thus provides the overarching context in which the other theories have to be understood.

Chapter two of the thesis historicises the relationship between the US and China giving an overview of political and economic relations from the Opium War of 1842 until the end of the Bush Presidency and the supposed birth of a 'New World Order.' In the first section detailed attention is given to America's 'Open Door' China policy which prevailed from the beginning of the twentieth century until the outbreak of World War II. The chapter

goes on to discuss the relationship in the years 1949 -1971 against the backdrop of ideological rivalry, gradual change in the nature of the Communist threat, and the stance of US allies with regard to the US trade embargo of China. Finally, a more in-depth analysis of relations following the Shanghai Communique is undertaken which gives particular attention to the political economy aspects of relations under Carter, Reagan, and Bush.

Chapter three is based on detailed empirical analysis of the economic relationship between the US and China under the Clinton Administration. The first section assesses China's Most Favoured Nation (MFN) status and the concomitant dispute over the bilateral trade deficit. Evidence is given relating to Hong Kong's role in bilateral trade which undermines official US government figures and the political arguments surrounding withdrawal of China's MFN; US FDI in China is considered and is viewed as complicating the supposedly 'national' character of Chinese exports; China's currency reforms are taken into account as contributing to the bilateral deficit. The general argument is put forward that the deficit has to be understood in structural terms relating to China's position in the Asian regional economy and as the supplier of one of the world's cheapest workforces. The second part of the chapter discusses China's entry to the WTO and offers a detailed analysis of the outstanding bilateral disputes preventing China's entry - these included Intellectual Property Rights disputes; transshipments; market access; US sanctions and prison labour. The third section looks at China's structural reforms so far and their implication for US policy. In particular it examines China's privatisation of its State Owned Enterprises (SOEs) and the threat they pose to social and financial stability in

China. This section also looks at the Asian financial crisis as a turning point for China's reforms and a reminder to the US that state intervention is still necessary in the face of external shocks.

Chapter four examines the role of non-governmental forces in US-China relations and the manner in which they have impacted upon the policies of the US state, in particular, but also on the way in which China is able to liberalise its economy. The first part of the chapter involves a breakdown and analysis of forces supporting the Clinton Administration's China policies and those opposing them. The groups looked at include human rights lobbies, business groups and overseas Chinese. The second section looks at social forces within China and that nation's dearth of a civil society. It is argued that without a civil society market reforms are bolstering authoritarian forces in the short-term, though the fragmentation of central power may alter this. The final section considers the problem of human rights overall and concludes that change is most likely to come from within China and that, while US concern with human rights is valid, isolation of China would be counter-productive.

Chapter five seeks to contextualise environmental issues in the US-China relationship against the backdrop of the global conferences held at Rio in 1992 and Kyoto in 1997. The environmental aspects of the US-China relationship have not featured at all prominently in the existing literature on US-China relations. This chapter attempts to rectify this situation arguing that, as the two most polluting nations on earth, a cooperative basis to US-China relations may well be necessary in preventing further ecological

damage. The first section of the chapter examines the respective stances of the two governments at the Rio and Kyoto summits and argues that neither has adequately addressed the need to compromise on the dual issues of development and consumption which dominated discussions. The second part of the chapter assesses the general approach of the Clinton Administration towards the environment and problematises the contention that market solutions suffice in tackling complex environmental problems which require the type of clean air technologies in which the US excels. Some analysis of current cooperative ventures in the relationship is undertaken. The third section considers China's environmental crisis and the efforts being made by the Chinese government to tackle it domestically and at the regional level.

The sixth chapter places US-China relations within a context of Asia-Pacific regionalism. It is argued that APEC is an elite and US-dominated grouping which, as yet, commands little loyalty from the Asian powers and towards which China, as yet, has taken an ambiguous stance. We also look at the role of Greater China as a regional force and alternative to APEC as a transmission belt for regional capital and economic interaction. The next section considers some of the outstanding geo-political issues in the region while considering the US's approach to this increasingly important realm in US-China relations - particularly the Taiwan issue which continues to divide the region. However, we argue that, overall, China's enhanced trade with the US is likely to deter aggression. Finally, the Asian financial crisis is examined as a regional challenge to US hegemony particularly the possibility of greater Japanese-Chinese cooperation which has emerged in the wake of the crisis.

The overall conclusions of this thesis are enframed within a discussion of globalisation and the way it changes how we view bilateral relations. We argue that within globalisation there is room for differences among states in economic strategy but that the webs of economic interdependency it creates give the US and China a mutual stake in securing a peaceful and stable world order. US dominance of that order remains extremely important and, although China may challenge certain aspects of that power, we argue that US structural power continues to be such that China is likely to move towards greater pluralism and democracy - at least in terms of the socially empowered of that nation. Likewise, US dependence on China's burgeoning market is likely to deter any resort to protectionist policies though China's full entry to the WTO is undoubtedly the prerequisite to greater cooperation.

Chapter 1

A Critical Theory of International Political Economy

Introduction

The ending of the Cold War engendered something resembling shock therapy for academic discourses in international political economy (IPE) and International Relations (IR) which harnessed theoretical and/or ideological development to that great conflict and the constraints and opportunities it imposed. For foreign-policy makers the Cold War provided an invaluable source of reassurance in analysing world order, the nation-states and their composite civil societies. Most forms of inquiry seemed to stem, in one form or another, from the global conflict between opposing international ideologies embodied and ceaselessly promoted by the United States and the Soviet Union between 1945-1989.

The post-Cold War environment, then, allows for the bringing to fruition of alternative theoretical interpretations of world order, the nation-state and civil society. This does not mean the abandonment of past theoretical traditions. Rather, the significance of any departure from past theoretical verities lies in the cross-fertilisation of changing and emerging theoretical approaches to international politics. The convergence of IPE with state-society theory, and certain strands within the historical-sociological approach to history and the state, constitutes the framework of our theoretical section and will be discussed in turn. This framework recognises the interplay between structure and agency at both global and state levels.¹ The main working premise here is that theories of the state can increasingly be transplanted into the body of a 'new' and critical IPE discourse on the nature of change in

¹ For a discussion see A Gamble and A Payne (eds), "Introduction" to *Regionalism and World Order*, London, Macmillan, 1996, pp.1-20.

international relations and in the global political economy and the manner in which such factors relate to the ongoing process of globalisation. *Quid pro quo*, the emerging IPE literature must be incorporated within any viable theory of the state because political strategies pursued by the state can no longer be divorced from the global arena and the structural constraints of global capital.² Moreover, this theoretical framework aims to look beyond both the state and the global economy as face-value concepts by disaggregating the former and questioning the structures, values, and norms which underpin the functioning of the latter. In this way, the theoretical basis is mapped out for an exploration of US-China relations during the Clinton Administration which is more appreciative of global/structural factors in shaping the relationship and is more attuned to internal social dynamics in both countries as key determinants of government policy. Let us now begin by looking at the dominant (mainstream) IPE literature which, until the early 1990s, tended to define the theoretical terrain of inquiry in the field and which, though providing some useful insights, tended to limit our understanding of a changing and increasingly fragmented world order.

Mainstream Theories of International Political Economy

The field of International Political Economy emerged in the early 1970s when Charles Kindleberger, in his study of international economic relations during the 1930s, expounded on the need for a stabiliser in the world economy willing to act as a lender of last resort and to maintain global order under conditions of international anarchy. Kindleberger pointed to the 1930s as a period when no single state was willing to assume the responsibility of hegemonic leadership - a state of affairs leading to economic crisis and war.³ Hegemony was, thus,

² S Gill and D Law, "Global Hegemony and the Structural Power of Capital", *International Studies Quarterly*, Vol.33, No.4, 1989, pp.475-99.

³ See C Kindleberger, *The World in Depression 1929-39*, Berkeley, University of California Press, 1973.

conceived as a 'public good' provided by a benign superpower and a key ingredient of global economic and ideological stability.

Later in the 1970s, the debate within IPE moved from hegemonic stability theory, and the attendant idea of a solitary hegemonic stabiliser in the world-system, to a more edifying engagement with the idea of 'complex interdependence.' This theoretical approach, developed most notably in the collaborative work of Keohane and Nye, recognised that structural change was taking place in the international economy, but continued to focus on exploring ways to ensure systemic reproduction congruent with dominant US interests. The interdependence or neo-institutionalist school investigated in particular the ways in which global regimes, norms, and rules could be recommended to US policy makers as a means of inducing global cooperation - between states and non-state actors - so as to sustain US power despite the assumed decline of US hegemony at the level of the nation-state.⁴

Towards the end of the 1970s, and into the 1980s, US theorists (who largely defined IPE in its infancy) backed away slightly from ideas of complex interdependence and regime theory towards focusing with renewed vigour upon the neo-realist problematique of global anarchy. This approach entailed viewing the international system as inherently anarchic due to the absence of a central authority. States were characterised as 'billiard balls' continually prone to collision and conflict - a theme first championed by the prominent International Relations theorist Kenneth Waltz.⁵ Power has been defined by realist IPE scholars, most notably Stephen Krasner, as the accumulation of 'raw materials' and material resources.⁶ Neo-institutionalists largely shared this perception of power in the international sphere by accepting

⁴ See R Keohane and J Nye, *Power and Interdependence: World Politics in Transition*, Boston, Little:Brown, 1977.

⁵ See KN Waltz, *Theory of International Politics*, Reading, Massachusetts, Addison-Wesley, 1979.

international power, and the concept of hegemony, as deriving from control over material resources - indeed Keohane described hegemony as the "preponderance of material resources."⁷ Moreover, the normative purpose of neo-institutionalist IPE was, again in the words of its foremost proponent Robert Keohane, to "facilitate the smooth operation of decentralised international political systems."⁸ In this sense the work of American scholars in the field was both positivist and system-maintaining.

In the early 1980s the public goods assumptions and state-centric theories of neo-realism were once again brought under scrutiny. Duncan Snidal illuminated the 'limits of hegemonic stability theory' and the possibility that collective and coordinated action by ascending states in the world system could challenge the neo-realist idea of a solitary hegemon. Snidal argued that by pooling resources such states could offer alternative configurations of power. Snidal also raised pertinent questions concerning the efficacy of neo-realist public goods assumptions given the fact that the US, and other powerful states, were suitably situated to manipulate the world's trade regimes to their own unilateral advantage.⁹ Snidal's useful observations were accompanied by the work of neo-institutionalist theorists such as Keohane and Axelrod who developed an increasingly prevalent 'cooperation under anarchy' thesis.¹⁰ This argument mainly revolved around the proposition that western institutional regimes provided the fora for stability as the bipolar Cold War order began to give way to new 'anarchic' forces of

⁶ See SD Krasner, *Defending the National Interest: Raw Materials, Investments and US Foreign Policy*, Princeton, Princeton University Press, 1978.

⁷ R Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, Princeton University Press, 1984, p.32.

⁸ Cited in R Devetak, "Critical Theory", in S Burchill and A Linklater (eds.), *Theories of International Relations*, London, Macmillan, 1996, p.150.

⁹ D Snidal, "The Limits of Hegemonic Stability Theory", *International Organisation*, Vol.39, 1985, pp 579-614

¹⁰ See R Axelrod and R Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions", *World Politics*, Vol. 32, No.2, 1984, pp. 1-

nationalism and Islamic fundamentalism. Neo-institutionalist theory, then, differed from neo-realism only in the d the argument that states are likely to cooperate in the international system so as to secure absolute welfare maximisation rather than pursuing the 'relative gains' emphasised by realists which, of course, preclude such cooperation. In the assessment of David Rapkin, these debates were 'in-house disputes' and failed to explore the 'multiple connotations' denoted by the concept of hegemony which will be elaborated upon below.¹¹

In short, IPE had, by the beginning of the 1980s, reached something of an explanatory nadir in its neo-institutionalist and neo-realist guises. What Crane and Amawi identified as mainstream convergence around the study of rational theories of the state, hegemonic stability, and regime theory, (viewed as defining the remit of the discipline)¹² entailed a very narrow interpretation of hegemony and power in the global economy which left most of the key questions unanswered; (why hegemony is resisted by some states and not by others) and failed to explain the mixture of elements which would actually comprise the rare instance of world-hegemony. More recently, mainstream IPE has been challenged by 'new' or 'critical theories' of IPE which have opened previously foreclosed debates and ushered in more satisfactory ways of approaching the question of power in the global domain.¹³ It is to this evolving critical approach that we now turn.

Critical International Political Economy

The challenge to mainstream international political economy was thrown down most impressively by the work of Robert Cox who, in the early 1980s, identified a lacunae in the then existing IPE literature. In essence, existing approaches all conceived the international

¹¹ DP Rapkin, *World Leadership and Hegemony*, Boulder, Lynne Rienner, 1990, p.7.

¹² GT Crane and A Amawi, *The Theoretical Evolution of International Political Economy*, New York, New York University Press, 1991.

economic order as given rather than the product of a dominant ideology. For Cox, this lacunae could be filled by more critical and historical approaches infused with a better understanding of the complex interplay between historical structures and political processes. In two seminal articles, Cox set out a critical theory of international political economy which both challenged the basis of existing theories and, more broadly, attempted to expose the politically situated and fixed perspective of mainstream IPE. Cox drew the distinction between what he termed 'problem solving theory' and 'critical theory'. For Cox, critical theory must "stand apart from the prevailing order and ask how that order came about."¹⁴ Critical theory thus posits ways of moving beyond realist and neo-institutionalist theories by offering alternative hypotheses of world order grounded in existing conditions but based on conceiving history as a fluid and open process.¹⁵ This is accomplished by asking under what conditions institutions and social power relations are brought into existence and, by implication, how new configurations of global power can be brought about in the future to form an alternative 'historic bloc' or form of 'hegemony' - concepts which will be discussed below. Let us now set out Cox's theoretical approach in greater depth.

The key element of Cox's approach to IPE is a methodology which attempts to comprehend historical and social change in a multi-faceted way; an approach Cox has characterised as requiring the analysis of historical structures. Historical structures are those fundamental power-structures which underpin a world-historical order and consist of "material capabilities, ideas, and institutions" which interact in a mutually constitutive and reciprocal relationship. It is the fit between these three elements which form the basis of hegemonic power in a specific

¹³ R Tooze and CN Murphy, *The New International Political Economy*, Boulder, Lynne Rienner, 1991.

¹⁴ R Cox, "Social Forces, States and World Orders: Beyond International Relations Theory," *Millennium: Journal of International Studies*, Vol.10, No.2, 1981, p.129.

historical era. No "one-way determinism need be assumed" among these three elements while the "question of which way the lines of force run is always a historical question to be answered by a study of the particular case."¹⁶ In this sense such structures posit both opportunities and constraints in that actors can "resist and oppose" even if they "cannot ignore" them.¹⁷ Crucially, Cox's critical theory views historical structures as containing intersubjective meanings of social relations and the collective habits which underpin them. People are not only bearers of structures but instrumental in their creation precisely because structures are legitimated and reproduced by modes of behaviour solidified over time and eventually taken to represent social 'common sense' or a *natural* order. Crucially, ideological structures are viewed, in the critical usage, as being as important as material structures in defining the scope of social action and, in the words of Gill and Law, the "way individuals and groups are able to understand the social situation, and the possibilities of social change."¹⁸ According to Cox, historical structures interact across three interpenetrating and constitutive domains of social power: (i) with regard to the social forces engendered by production forces; (ii) the differing forms of state which arise from specific state/society complexes; and (iii) the nature of the world order arising from particular configurations of social forces and forms of state.¹⁹ Importantly, Cox also applies the Italian Marxist, Antonio Gramsci's, conception of the extended state and thereby refutes the static view of statehood which forms the basis of neo-

¹⁵ R Palan and A Amin, "The Need to Historicize IPE", *Review of International Political Economy*, Vol.3, No.2, 1996, p.12.

¹⁶ RW Cox, "Social Forces, States, and World Orders: Beyond International Relations theory", in RW Cox, with T Sinclair (ed.), *Approaches to World Order*, Cambridge, Cambridge University Press, 1996, p.98.

¹⁷ *Ibid.*, p.98.

¹⁸ S Gill and D Law, *The Global Political Economy: Perspectives, Problems and Policies*, Hemel Hempstead, Harvester Wheatsheaf, 1988, p.74.

¹⁹ Cox and Sinclair, *Social Forces, States, and World Orders*, p.100.

realist approaches - "a state was a state was a state."²⁰ It is worth exploring this neo-Gramscian conception of the state further in order to differentiate it more fully from the mainstream appropriation of the term.

Cox points to the importance of 'forms of state', located specifically in time and space, as the premise for social inquiry. For Cox, the state should be conceived as encompassing the state-society nexus or, in Gramsci's own formulation, "political society + civil society." Indeed, Gramsci states that "in concrete reality, civil society and the State are one in the same."²¹ In this vein, any investigation of a state's foreign policy would have to take account of the dynamic interplay between three key elements which can be identified as follows: (i) the relationship between social forces and the state; (ii) struggles within civil society between competing classes or groups; and (iii) competition inside the state apparatus between political elites and their respective bureaucracies.

It is also worth illustrating, if briefly, the neo-Gramscian concept of the 'historic bloc' and its centrality to Cox's critical theory. Historic blocs are conceived by Gramsci as coalitions of dominant class fractions capable of sustaining a hegemonic project with some degree, larger or smaller as the case may be, of popular legitimacy. Moreover, a historic bloc's social basis spans the reciprocal relationships between political, ethical, and ideological spheres of power and is therefore broader than the economic structure alone.²² Indeed, historic blocs are underpinned by hegemonic classes which forge a consensus within civil society by drawing on the 'superstructural' power of ideology and political organisation. Importantly, the superstructural power of hegemonic classes entrenches and naturalises the exercise of material

²⁰ *Ibid.*, p.127.

²¹ Q Hoare (ed), *Antonio Gramsci: Selections From Prison Notebooks*, New York, International Publishers, 1971, p.208.

²² Cox, "Gramsci, Hegemony, and International Relations", p.131.

power secured *vis a vis* ownership of the means of production- *a la* Marx. Thus, in Gramsci's view, a hegemonic strategy, in order to succeed, demands passage from the exercise of structural power (power over the economy) into the domain of complex superstructures (power over institutions, churches, ideology and so on) which secure much deeper control over society in terms of shaping behaviour, norms, and political possibilities.

Neo-Gramscian critical theory, then, gives us a far more sophisticated way of interpreting the interaction between the various dimensions of state power and the way they interact with hegemonic world orders (the relationship between social forces, state-society complexes and world orders.) Cox provides a methodology which is, in itself, adaptive and self-questioning in the face of ongoing national and global structural transformations and manages to build upon the best insights of established theoretical forerunners to critical IPE - whilst avoiding their more obvious pitfalls. Firstly, Cox utilises the historical insights of world-systems theory but, crucially, breaks with the historical determinism of theorists such as Wallerstein²³ who have conceived of the international arena as static and prone to returning to a natural equilibrium *a la* realism. Global and national hegemonies are not pre-determined but viewed by Cox as being continually open to challenge from coalitions of states and social forces many of which are able to act transnationally. It is important to reassert the fact that neo-Gramscian critical theory emphasises both change within global structures (hence the continued importance of national strategies and domestic politics) and the potential to change those structures themselves (the idealistic contention that alterations in national hegemonies may eventually lead to a new form of global politics.) Secondly, Cox's critical theory recognises the achievements of historical materialism while rejecting the theoretical dogmas attached to structural Marxism. Again, while Cox shares traditional historical materialist concerns with

²³See Immanuel Wallerstein, *The Capitalist World- Economy*, Cambridge, Cambridge University Press, 1979.

social forces as the basis of analysis, he also incorporates Gramsci's specific emphasis on ideas and ideologies as sources of power. For Cox, "ideas and material power are always bound together, mutually influencing one another, and not reducible one to the other."²⁴

Crucially, neo-Gramscian critical theory views global hegemony as implying far more than simply the hegemony of any one state in the material sphere. It is worth going into further detail here. Hegemony is conceived as containing both consensual and coercive elements. This is a key factor in understanding the constitution and maintenance of any hegemonic project. Firstly, hegemonic elites have a vested interest in persuading subordinated classes to cooperate in the existing order and, as Cox puts it, to couch hegemonic leadership as "serving universal or general interests, rather than just serving their own interests."²⁵ A hegemonic group, class, or state is most likely to use coercion when its hegemonic position is threatened and less likely when its position is strong or unassailable. As we have elucidated, a hegemonic group, class, or state has to move beyond the specific interests of that group, class, or state in order to legitimise a historic bloc and in order to build institutions and ideologies with some semblance of universal validity. The crucial point here is that the construction of hegemonic ideologies and institutions involves conceding enough power to subordinate groups so as to secure their acquiescence in the status quo. Coercion, however, is always a key facet of hegemonic rule which, in the last instance, is principally concerned with maintaining power and control either over national society or the functioning of a global civil society and world institutions.

Another central and often neglected concern for critical IPE is the idea of counter-hegemony. For Cox, oppositional social forces - or counter-hegemonic movements - must wage a

²⁴ R Cox, "Gramsci, Hegemony and International Relations: An Essay in Method", *Millennium: Journal of International Studies*, Vol.12, No.2, 1983, p.168.

²⁵ Cox, "Gramsci, Hegemony and International Relations: An Essay in Method", in Robert Cox with Timothy Sinclair, *Approaches to World Order*, p.137.

Gramscian 'war of position' in trying to change prevailing institutions and the ideologies they espouse - a task likely to begin "within national boundaries."²⁶ This involves long-term strategy, rather than any resort to transhistorical assumptions that prevailing social orders, national or global, can be overturned by revolutions of the Marxist-Leninist variety. This approach also recognises that counter-hegemony usually begins within communities, or national societies, sharing some cultural or material basis for social solidarity. Critical theory recognises that hegemonic orders are well adapted to diffusing or downgrading radical challenges to the status quo. As Cox puts it, "hegemony is like a pillow: it absorbs blows"²⁷, thereby co-opting oppositional forces into the prevailing order. Hegemony also absorbs counter-hegemonic ideas and "makes them consistent with hegemonic doctrine."²⁸

It is worth highlighting further that neo-Gramscian theorists are also keen to introduce the idea of a global civil society in which hegemonic elites operate as an "international business civilisation" promoting free market or neo-liberal ideology through global institutions and multinational corporations.²⁹ Indeed, several neo-Gramscian theorists, such as Gill, Augelli and Murphy and Van Der Pijl, have placed global institutions at the centre of much of their analysis concerning how neo-liberal hegemony had been maintained and diffused throughout the world in the post-war period.³⁰ In this sense also, a critical IPE approach is more attuned

²⁶ *Ibid.*, p.141.

²⁷ *Ibid.*, p.139.

²⁸ *Ibid.*, p.139.

²⁹ See R W Cox "Structural Issues of Global Governance: Implications for Europe", in S Gill (ed), *Gramsci, Historical Materialism, and International Relations*, Cambridge, Cambridge University Press, 1993. Cox's use of the term international business civilisation avers to the burgeoning corporate elites with world-wide business strategies and similar cultural and ideological preferences. Many within this civilisation have more in common with each other and more loyalty towards each other than towards members of their own national populations.

³⁰ See S Gill, *American Hegemony and the Trilateral Commission*, Cambridge, Cambridge University Press, 1990; E Augelli and CN Murphy, *America's Quest for Supremacy in the Third World: A Gramscian Analysis*, London, Pinter, 1988; and K Van der Pijl, *The Making of an Atlantic Ruling Class*, London, Verso, 1984. Additionally, and for a good discussion of the way in which global institutions "socialise" dominant norms and

to the changing nature of social polarisation in a globalising world order in which the sites of structural economic and political power are multiplying among private actors.³¹ At this juncture it is worth considering the way in which neo-Gramscian critical theory may be applied to the hegemonic world order as it exists and ways in which it may be improved upon in explanatory terms.

For all its enormous strength and subtlety, there are some problems with the neo-Gramscian definition of hegemony in that the various elements of power which constitute hegemony are not clearly delineated, the relative importance of each is ill defined, and the 'threshold' of power which needs to be crossed before hegemony is instated or diminished is not fully explained.³² This leads to some confusion about exactly what it is that a world-hegemony consists of - for example, is it military supremacy or economic supremacy? Moreover, this lack of clarity creates particular ambiguity in relation to the long running debate about US hegemonic decline and whether or not the US remains a hegemonic power capable of ordering the international system to its advantage.³³ This problem is remedied somewhat by turning to Susan Strange's 'eclectic theory' of IPE in which power is deemed to be located across the realms of finance, ideas, production, and security.³⁴ As Anthony Payne asserts, each of these

values in a subtle way see JG. Ikenberry and A.C Kupchan, "The Legitimation of Hegemonic Power," in Rapkin (ed), *World Leadership and Hegemony*, pp. 49-69.

³¹ Though not a Neo-Gramscian theorist Susan Strange's analysis of globally diffuse sites of economic power and a diversity of non-state actors is instructive. These include such actors as telecoms, organised crime, insurance business, and accountants. See S Strange, *Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge, Cambridge University Press, 1996.

³² A J Payne, "The New Political Economy of Area Studies", *Millennium: Journal of international Studies*, Vol.27, No.2, 1998, p.258.

³³This debate was precipitated by Paul Kennedy's *The Rise and Fall of the Great Powers*, London, Harper Collins, 1988.

³⁴ S Strange, "An Eclectic Approach" in CN Murphy and R Tooze (eds), *The New International Political Economy*, Boulder, CO: Lynne Rienner, 1991, pp.33-49.

realms are separate but interrelated and, it could be added, may be investigated as empirically distinctive, yet always taken to represent part of an overarching global structure.³⁵

In reference to American power during the post-war period we can see that hegemony has given way to domination. Using Strange's definition, hegemony can be seen to have begun unravelling when the 'golden years' of the post-war *Pax Americana* were abruptly ended by the Vietnam war - a war in which the US attempted to combine huge levels of expenditure with expansionary domestic policies. US leaders refused to fund the Vietnam war by increasing taxation at home and this insistence on deficit spending led to the Nixon administration's abrupt termination of the Bretton-Woods financial system in 1971. The 1970s were punctuated by attempts, on the part of US politicians, to place new limits upon America's global role amidst several crises which further undermined US global power - most notably the Oil and Petroleum Exporting Countries (OPEC) price hikes of the early 1970s and growing confidence among Third World nations demanding a New International Economic Order (NIEO). In the 1980s the Reagan Administration undertook an ambitious programme of policies designed to reassert US hegemony over the global order and reverse this steady decline. In the end, however, the Reagan Administration's strategy of national renewal - massively increased defence spending combined with huge tax cuts - only exacerbated previous failures to solve ever expanding trade and expenditure deficits. Moreover, the 1980s witnessed the emergence of a newly competitive global economy in which Japan and Western Europe were, for the first time, outpacing US economic performance in notable areas. In short, from the late 1960s onwards US hegemonic power across the political, economic and ideological domains has been diluted and the US reduced to the status of a player, if still the most dominant and most successful, in a more complex and multilateral world order.

³⁵ Payne, *The New Political Economy of Area Studies*, p.258.

Following the denouement of the Cold War, the US state no longer has the power to forge a new Bretton Woods system of currency regulation underpinning global economic relations and ensuring global economic stability. Moreover, the US can no longer unilaterally fashion a consensus to wage large scale conflicts without assembling a coalition of allied contributors - a fact demonstrated in 1990-91 when the US was largely reliant on German, Japanese and Arab funds to finance the Gulf War.³⁶ In this sense, it is no longer self-evident that the US is hegemonic across the range of elements identified above as constituting a world-hegemonic order. Nevertheless, it is important not to be too dismissive of US preponderance in fundamental areas of global significance. As stressed, if the US is no longer hegemonic then it is certainly still the most dominant global actor in terms of influence. For example, the US continues to exert structural/financial and ideological power through global institutions such as the IMF, the G7, the WTO and the United Nations while leading the world's most powerful military alliance in the form of NATO. The US has no rivals on the global stage capable of usurping its military prowess, while the strategic and geo-political outreach of the US remains unrivalled. Moreover, the US continues to provide the world's strongest currency and the most innovative and robust economy with the largest market for global exports. Importantly, the technological supremacy of the US remains beyond question, as does the fact that the US is the world's most flexible, adaptable, and experimental economic model always seemingly capable of generating new products and shifting the actual basis of world economic competition. Equally, US sanctions are capable of single handedly decimating economies across the globe, both large and small. In short, though the hegemony of the US state has

³⁶ *Ibid.*, pp. 259-260.

declined the dominance of US ideas and culture, what Joseph Nye has termed 'soft power', continues to proliferate.³⁷

Having discussed, in more detail, the question of hegemony's usage in critical theory it is also necessary to consider a few other areas in which the neo-Gramscian critical approach may be added to. A notable problem with the critical approach to IPE outlined above is Cox's appropriation of production as the 'essence' of international relations.³⁸ This represents an unnecessarily reductionist view of the counter-hegemonic forces at play in an increasingly complex world order. Although it can readily be conceded that class is still important, Cox's actual use of relatively conventional class analysis plays down Gramsci's emphasis on ideas³⁹ and underestimates the social reality of a plural world order marked by fissures over ethnicity, gender, and ecological issues which offer new critiques of power, domination, and neo-liberalism while reflecting various forms of hegemonic domination.

In short, resistance to hegemony is likely to take many forms and manifest itself in many guises among groups which cannot afford the luxury of waiting for hegemonic transition at the state or global level. Moreover, neo-Gramscian ideas, relevant to the construction of historic blocs and the transition to a post-hegemonic world order, are largely based on a reading of Western history and western hegemonies as the blueprint for future transitions. In this sense, Gramsci's approach cannot always be transposed upon non-Western situations where vastly different social forces exist and where institutions, force of law, and civil societies (of the type which formed the basis of Gramsci's original analysis of the Italian political order) are often

³⁷ See J Nye, *Bound to Lead: The Changing Nature of American Power*, New York, Basic Books, 1990.

³⁸ See RW Cox, *Production, Power, and World Order: The Role of Social Forces in the Making of History*, New York, Columbia University Press, 1987.

³⁹ S Whitworth, "Theory as Exclusion: Gender and International Political Economy", in Stubbs and Underhill (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p.126.

embryonic, even non-existent - as, for instance, in China.⁴⁰ Neo-Gramscian theory can profitably engage with many postmodern and post-colonial theories of international relations which stress multiple forms of political mobilisation and illuminate additional structures of power, besides class, opening up the attractive possibilities of theorising resistance “at the everyday, community, neighbourhood, and interpersonal levels” and confronting “those processes that close off potential for people to give meaning to their lives.”⁴¹ Significantly, Cox has moved to acknowledge the fact that ethnicity, nationalism, religious identities, and gender “have in measure displaced class as the focus of social struggle; but like class, they derive their force from resentment against exploitation.”⁴² There is an extent, then, to which the neo-Gramscian notion of power must be conceived with a certain amount of conceptual elasticity in order to avoid the pitfalls of reductionist theorising.⁴³ This has been stressed by many neo-Gramscian scholars, such as Roger Tooze, who have consistently pointed out the reflexive and non-dogmatic nature of new IPE and its openness to an array of theoretical influences.⁴⁴ It should be added, however, that, although such variables as culture, nationalism and identity are increasingly relevant, they often appear intangible or difficult to establish empirically.⁴⁵ Thus, while postmodern and post-Marxist criticisms correctly push us in the direction of a broader appreciation of social power and the basis of social order at the micro-level, they do not detract from Cox’s synthesis of structural power at the macro-level and the

⁴⁰ LHM Ling, "Hegemony and the Internationalising State: A Post-Colonial Analysis of China's Integration into Asian Corporatism", *Review of International Political Economy*, Vol.3, 1996, pp.1-26.

⁴¹ J George, "Understanding International Relations After the Cold War", in M Shapiro and HR Alker (eds.), *Challenging Boundaries*, Minnesota, University of Minnesota Press, 1996, p.68.

⁴² R Cox "Global Restructuring" in Stubbs and Underhill (eds), *Political Economy and the Changing Global Order*, p.53.

⁴³ See R Germain and M Kenny, "Engaging Gramsci: International Relations Theory and the New Gramscians", *Review of International Studies*, Vol.24, No.1, 1998, p.19.

⁴⁴ See R Tooze, "Understanding the Global Political Economy: Applying Gramsci", *Millennium: Journal of International Studies*, Vol.19, No.2, 1990, pp. 273-280.

neo-Gramscian argument that global hegemony rests upon shared understandings by dominant, technocratic, political formations which are making fundamental decisions on how social life in most of the world should be organised.

State - Society Relations

Within this critical-theoretical framework it is important to implant a body of theory which concerns itself with conceptualising political agency within the structural context set out above. In what has been termed a 'new political economy' approach the false dichotomy between structure and agency is overcome and the state is located at the interface between society-based political agents and economic forces which exert structural power at the global level.⁴⁶ With these changes in mind, some of the demarcation lines between established theories of the state are blurring, leading to general agreement around a number of shared perspectives on how to approach analysis of the state. These constraints on state strategy are presently particularly hard felt by any state, democratic or otherwise, attempting to depart from the global neo-liberal model of economic development. Thus state theory has had to adapt to a global situation which no longer fits easily into the Westphalian model of politics based on the autonomous status of the sovereign state. Rather, as markets become more integrated and globalised, some of the old distinctions between elitist, Marxist, and pluralist theories of the state seem bound for revision. Though Marxism, elitism, and pluralism each have their own distinctive historical lineage there are aspects within each approach which are now converging. This convergence of state theories has been lucidly and convincingly set out

⁴⁵ Following Foucault, the idea of indeterminacy is intrinsic to postmodern thought.

⁴⁶ See A Gamble, A Payne, A Hoogvelt, and M Dietrich and M Kenny, "Editorial: New Political Economy", *New Political Economy*, Vol.1, No.1, 1996, pp.5-6.

by David Marsh.⁴⁷ He has put forward six broad areas of convergence which are worth discussing at some length.

Convergence in State Theory

Firstly, each position outlined by Marsh accepts the concept of 'structured privilege' and the accompanying assertion that certain groups and individuals are conferred a privileged status resulting from their structural position within a given society. Accepting the importance of 'structured privilege' has involved a shift in pluralism towards positions already espoused by Marxism and elitism and a willingness to concede that modern societies do not simply contain a level playing-field of competing interests free of in-built forms of material and social privilege. Nevertheless, differences in emphasis remain. Pluralists, overwhelmingly, tend to reject "broad social categories", especially ones framed by identity (such as gender and race), and continue to emphasise the greater relevance of variables such as "class/status, education, knowledge and political interests" which cross-cut these broader categories and constitute a more diverse amalgam of interests.⁴⁸ For pluralists, it is the conflict between interest groups which principally defines politics and determine policy outcomes. Pluralists have come to recognise, however, the structurally privileged nature of "policy networks" which systematically include certain groups and exclude others from access to government. In recognising that structured privilege exists it also becomes clear that favoured groups are often incorporated within a policy-nexus conducive to state preferences while forces of opposition are systematically excluded.

The second area of convergence, according to Marsh, centres around "the role of agency." In this case Marxist and elitist theories have moved closer to pluralist concerns with the role of

⁴⁷ D Marsh, "The Convergence Between Theories of the State", in D Marsh and G Stoker (eds.), *Theory and Methods in Political Science*, London, Macmillan, 1995, pp.268-287.

political agency in defining policies and influencing policy outcomes. In a clear departure from the structural Marxism of Althusser⁴⁹ and other Marxist state theories which viewed the state as essentially capitalist⁵⁰, modern Marxists, such as Jessop, have emphasised that political actors are “calculating subjects” operating under conditions of structural constraint. Though structures may be innately capitalist entities, actors (operating within those structures) need not necessarily act as capitalists at all times. Rather, agents are capable, in Jessop’s view, of selecting specific strategies which shape institutions and the outcomes of political struggle within a system of structured preferences.⁵¹

The third area of convergence identified by Marsh concerns the equal weight now appropriated by each theory to the “limited number of structural bases of privilege.” The overlap here is shared more by elitism and Marxism than by pluralism. Again, pluralists are more likely to emphasise the influence of interest groups and policy networks over policy outcomes than broad social categories and sites of social inequality such as gender and class. These areas of convergence are succinctly delineated by Marsh: (i) economic/property resources, an area of social division fundamental to Marxism but also crucial to the Weberian tradition; (ii) the issue of gender which has impacted, *vis a vis* much recent feminist theory, upon both Marxism and elitism; (iii) issues appertaining to political resources, control of the political agenda, and membership of policy networks; and (iv) knowledge, a category pivotal to the Weberian tradition - especially the role of knowledge and power accruing professional elites.⁵²

⁴⁸ *Ibid.*, p.271.

⁴⁹ For an example of structural Marxism see L Althusser, *For Marx*, London, Verso, 1969.

⁵⁰ R. Miliband, *The State in Capitalist Society*, London, Weidenfield and Nicolson, 1968.

⁵¹ See R. Jessop, *State Theory: Putting the Capitalist State in its Place*, Cambridge, Polity Press, 1990.

⁵² Marsh, "The Convergence Between Theories of the State", p.272.

A fourth area of broad convergence is founded on the question of statism. In relation to the question of statism both Marxism and pluralism derive their analyses from socially based theories - though with differing emphases on the respective roles of class and interest groups.

Marxists have increasingly come to emphasise, however, the independence of state managers though continuing to describe this autonomy within the context of broader capitalist class relations.⁵³ Similarly, pluralists such as Nordlinger have come to acknowledge the autonomy of the democratic state and the centrality of conflicts within the governmental apparatus as well as those circulating within and between groups in civil society.⁵⁴

David Marsh's fifth area of convergence between theories of the state revolves around the question of contingency. The salience of the contingency question stems from the fact that most Marxists have now broken with historical determinacy and an immutable theory of rational historical development ending in socialism or communism. For modern Marxist theoreticians such as Jessop the question of who rules in a capitalist society is "a matter for empirical investigation, not theoretical assertion."⁵⁵ Thus the pluralist emphasis on measuring any given dispensation of social power empirically is something to be taken seriously within Jessop's reformulation of Marxist thought. Elitists, for their part, continue to accept Weber's empirical refutation of pluralism by focusing upon the accumulation of bureaucratic/ elite sites of power in order to disprove the pluralist thesis of diffuse power bases within democratic society.

The sixth, and final, area of convergence lies in the fact that all three traditions have moved to ascribe "primacy to politics" with, in Marsh's own words, "political outcomes...viewed as the

⁵³ See F Block, "The Ruling Class Does Not Rule", *Socialist Revolution*, No.3, 1977, pp.6-28.

⁵⁴ See E Nordlinger, *On the Autonomy of the Democratic State*, Cambridge, Mass, Harvard University Press, 1981.

product of conflict between interests/social forces for the allocation of scarce resources in a context characterised by structural inequality.”⁵⁶ The state is now viewed as a site of perennial struggle across a newly augmented terrain of social categories and social representations which include gender, race and so on. In the perspective of the converged approach modern states are viewed as comprising complex civil societies in which fissiparous social groupings collide in the process of influencing policy. This new emphasis has been largely foisted upon state theory by post-Marxist/postmodern theories of the state. Indeed, according to post-Marxists, such as Laclau and Mouffe, understanding hegemony and power under increasingly complex conditions involves the recasting of political space or, in their words, conceptualising politics as “the space for a game which is never zero sum, because the rules of the players are never fully explicit.”⁵⁷ In this view, hegemony exists at the point of political closure and exclusion from the political process. Moreover, in this formulation politics is seen to suffuse society and to exist in myriad locations concomitant with Michel Foucault’s conception of the ‘microphysics of power.’⁵⁸ Within the state apparatus itself, Jessop’s concept of ‘strategic selectivity’ has moved Marxism towards a view of the state which acknowledges the impact of various preceding hegemonic and social struggles on contingent state policies, and defines it essentially as an institutional complex which adapts in order to accommodate emerging social forces which are themselves shaped, and often changed, by those past experiences as regards future political strategies. In this way Jessop is able to explain why certain groups, such as

⁵⁵ Marsh, “The Convergence in Theories of the State”, p.273.

⁵⁶ *Ibid.*, p.273.

⁵⁷ E Laclau and C Mouffe, *Hegemony and Socialist Strategy*, London, Verso, 1985, pp. 192-193.

⁵⁸ See Michel Foucault in C Gordon (ed), *Power/Knowledge: Selected Interviews and Other Writings, 1972-1977*, Pantheon Books, New York, 1972. For Foucault power is dispersed throughout society and reproduced in discourses and self-regulative modes of behaviour he terms technologies of power. These can, however, usually be traced back to more generalised modes of power such as the disciplinary functions of capitalism and the state which demand widespread social conformity to ensure their own reproduction.

women, exert more influence in some capitalist states rather than others.⁵⁹ Moreover, Jessop retains the view, and this is important, that Western state forms continue to reflect institutionally and socially embedded class privileges - it is these privileged interests and strategies which continue to exert material and political leverage despite the existence of alternative strategies open to state managers.⁶⁰

The above theoretical convergence intersects well with the task of analysing the US state and the highly complex civil society of the US. A variety of cross-cutting interest groups, policy networks and NGOs functioning within the US political system often contribute to governmental gridlock and political entropy which has arguably undermined the US's competitive position in the global economy and its ability to fashion a coherent state strategy.⁶¹

The US system is also uniquely characterised by countervailing sites of institutional power underpinned by a binding constitution. Moreover, the Congress, the Executive (and the competing bureaucracies within the Executive branch), the Supreme Court, and individual state legislatures (with significant budgetary and taxation power) are all capable of confusing and frustrating state policy and manifestly undermine the concept of a singular national interest at the institutional - or elite - level. The incoherent nature of the US state has been exposed more emphatically by the ending of the Cold War and the disappearance of an anti-Soviet ideology which served as a political adhesive and prevented the type of political fragmentation which has occurred with increasing obviousness in the 1990s.⁶² In some

⁵⁹ Jessop, *State Theory*, p.10.

⁶⁰ Marsh, "Convergence of Theories of the State", p.273.

⁶¹ P Cerny, 'Global Finance and Governmental Gridlock: Political Entropy and the Decline of American Financial Power,' in R Maidment and J Thurber (eds.), *The Politics of Relative Decline*, Oxford, Polity Press, 1993.

⁶² See A Schlesinger, *The Disuniting of America*, New York, W.W. Norton, 1992. Schlesinger gives a good account of the reasons for (and potential damage flowing from) America's post- Cold War descent into political factionalism and identity politics.

respects, however, American capitalism has thrived under new conditions of political uncertainty which have allowed many private actors, especially multi-national corporations (MNCs), to develop their own individual foreign policies and to undertake research and development (R&D) and technological innovations unencumbered by state-sponsored political regulation or strong labour unions.⁶³ Moreover, tendencies towards what Cerny has termed 'Madisonian entropy.'⁶⁴ also reflect endemic anti-statist tendencies within the US political system. They can, in this sense, be seen as part of the US's strengths as well as an intrinsic weakness. In short, theorising the US state is and always has been a complex and messy process unlikely to be captured by any single theory.

The convergence in state-society theory also recognises the fact that states are not simply domestic bureaucracies but also internationalised bureaucratic networks capable of functioning in a quasi-autonomous manner across national boundaries. States are permeated by sub-state actors such as NGOs and business in a flotsam and jetsam of social interaction which established theories of the state often fail to capture due to their singular focus upon classes (as in Marxism), interest groups (as in pluralism) and state bureaucracies and politicians (as in elitism). Most importantly the state, in this converged approach, is reconfigured as a site of social power to be empirically investigated and institutionally disaggregated, rather than theoretically asserted *a priori*. Recognising the merits and deficiencies in each approach moves us towards a more thorough understanding of the state and the social forces which undergird it. Moreover, under conditions of globalisation, such an approach supplies the conceptual tool kit to investigate new and emerging political variables in a more satisfactory way. The state theories discussed above do not, however, explain all state

⁶³ This point is made convincingly by Susan Strange in S Strange and J Stopford (with J Henley), *Rival States, Rival Firms: Competition for World Market Shares*, Cambridge. Cambridge University Press, 1992.

action nor do they take on board certain historical factors which may determine state action. They do not tell us why, or in what manner, states use key resources such as nationalism, identity and culture as political resources. We will now look, if briefly, to historical-sociological theories of the state to provide some insights into these questions and to consider the ways in which this approach complements the overall theoretical framework being put forward.

Historical Sociology

Historical-sociological theorisations of the state dovetail nicely with the approaches to the state set out above while containing a number of key considerations which can be taken on board by both IPE and state theory. The insights provided by Michael Mann and Andrew Linklater go some way in deepening our view of the state as a historical and geo-political actor. Let us look at aspects of Michael Mann's state theory first of all. Michael Mann sees pluralism as correct in highlighting the dynamic force of party democracy in Western states and as rightly drawing attention to the fact that interest groups represent more than class interests alone.⁶⁵ Within Mann's framework the state is made up of "multiple, sprawling, fragmented administrations"⁶⁶ and he sees "state elites as plural not singular"⁶⁷, and thus capable of acting in a variety of complex ways. Again, Mann's approach is neither simply elitist nor realist in that the state is seen as a porous political formation, neither divorced from society nor a unified and cohesive actor. In this vein, elitism, pluralism, and Marxism all have something to bring to state theory though, taken alone, they are insufficient explanatory models. It is worth quoting Mann at some length:

⁶⁴ See P G Cerny, "Gridlock and Decline: Financial Internationalisation, Banking Politics, and the American Political Process" in Stubbs and Underhill, *Political Economy and the Changing Global Order*, pp. 425-438.

⁶⁵ M Mann, *The Sources of Social Power: Vol.1*, Cambridge, Cambridge University Press, 1986, p.47.

⁶⁶ *Ibid.*, p.53.

States are both actors and active places. [and] these places have many mansions and varying degrees of autonomy and cohesion, yet also respond to pressures from capitalists, other major power actors, and more general expressed social needs. But much of the empirical work on state administrations does not stress any of the actors privileged by these theories - a state elite, the interests of capital, or the interests of society as a whole. Rather states are portrayed as chaotic, irrational, with multiple departmental autonomies, pressured intermittently by capitalists but also by other interest groups. Under the microscope states "Balkanize," dissolving into competing departments and factions.⁶⁸

Although the importance of classes and interest groups, as well as the influence of state actors, wax and wane with the course of events, the one historical constant in Mann's theory is the 'infrastructural power' of the institutional state and its generation of ever enlarging bureaucratic and rationalised sites of social power. For Mann, only in this sense can the state be conceived as singular or unitary - as part of its tendency, as originally argued by Weber, to rationalise and naturalise bureaucratic control throughout society.⁶⁹ It is worth stressing again, that this is an overall historical feature of the modern state as an institution rather than an indicator of the cohesiveness of state actors in any given period. Again, the activities of the latter must be empirically established.

Mann's theory adds to the theoretical framework of this thesis in the way he accounts for the state as a historically and territorially defined entity which draws on historically moulded identities in order to act geo-politically. It also builds upon Marxist and pluralist state theories by accounting for the role of the state in waging war and raising war finances.⁷⁰ States, in short, derive enough social power from society to prosecute violence on behalf of national populations for reasons as diverse as territory, religion, and ethnicity. Importantly, however,

⁶⁷ *Ibid.*, p.51

⁶⁸ *Ibid.*, p.53.

⁶⁹ *Ibid.*, p.61

⁷⁰ *Ibid.*, p.49

Mann rejects the realist and elitist view that the state's geo-political role reflects *national* interests, while also repudiating pluralist and interdependence theory approaches which view state action as emanating from shared plural, material interests. Rather, "calculations of interest were always influenced by all of the entwined sources of social power, and always involved norms - sometimes peaceful, sometimes violent - emanating from complex attachments to the 'imagined communities' of class and nation."⁷¹

Mann's historical-sociological perspective intersects fruitfully with certain theories within the broader field of International Relations and, most notably, with the innovative work of Andrew Linklater.⁷² Within Linklater's international relations theory (which could also be termed a historical-sociological approach) emerges a useful conceptualisation of the state. For Linklater also, history demonstrates that states have been able to draw on nationalism and culture as if they were material resources while both nationalism and culture have, historically, been as important in defining social allegiances as class. Within Linklater's theory of international relations the intention is to move 'beyond realism and Marxism' by combining elements from both within one conceptual framework.⁷³ Drawing heavily on the critical sociological approaches of Giddens⁷⁴ and Mann, the argument taken up by Linklater is that the development of human history (and by inference the state) has, in part, been determined by class struggle, but also by state-building, war and developments in the realm of culture and ideology⁷⁵ - Linklater stating that "there are no grounds for arguing that state-building and war

⁷¹ *Ibid.*, p.50.

⁷² See A Linklater, *Beyond Realism and Marxism: Critical Theory and International Relations*, London, Macmillan, 1990.

⁷³ *Ibid.*, p.165.

⁷⁴ See A Giddens, *The Nation-State and Violence: Volume 2 of the Contemporary Critique of Historical Materialism*, Cambridge, 1995.

⁷⁵ Linklater, *Beyond Realism and Marxism*, p.167.

have been less important than class conflict and the evolution of the forces of production.....”⁷⁶

The purpose of cross-fertilising Marxist and realist theories is that of "acknowledging the significance of realist themes for critical social theory rather than any defence of state-reductionism.”⁷⁷ Importantly, Linklater’s critical approach goes some way towards explaining why, under conditions of globalisation and in a supposedly post-ideological period, conflicts continue to proliferate with regard to ethnicity and territory even when there is no obvious material motivation.⁷⁸ This leads us into a brief discussion of the nascent globalisation literature and its transformative impact upon each theoretical debate covered so far.

Globalisation

The globalisation debate feeds into all aspects of the above theoretical framework in that globalisation is already dramatically shifting the grounds of theoretical debate in the post-Cold War period. Globalisation roughly entails changes in the role and function of the state concomitant with the growing structural power of transnational markets and new developments in technology, informational flows, and the dispensation of global power to private actors. It is not our intention to explore the vast globalisation literature here, only to acknowledge the extent to which such a process has impacted upon debates within IPE state theory, and historical sociology. There are, broadly speaking, three schools of globalisation theory. The first has been termed a 'hyper-globalisation' school which propagates the argument that global markets are perfectly integrated, that finance is free of significant regulation, that technology and consumerism now transcend national borders and, consequently, that the very

⁷⁶ *Ibid.*, p.167.

⁷⁷ *Ibid.*, p.168.

⁷⁸ For a discussion see A Linklater, "Citizenship and Sovereignty in the Post-Westphalian State", *European Journal of International Relations*, Vol.2, 1996, pp.77-103.

idea of a national economy has become something of an anachronism.⁷⁹ In this view, adopted by both neo-liberals and many neo-Marxists, the nation-state is little more than a transmission belt for global economic forces as the levers of real power are handed over to transnational institutions such as the IMF and the World Trade Organisation.⁸⁰ Hirst and Thomson have provided a valuable corrective to this thesis of unfettered globalisation by stressing the continued role of national governments, but probably go too far in denying that significant shifts are taking place in the global economy - many of which are more qualitative than quantitative and which supersede analysis of trade figures alone.⁸¹ David Held *et al* have characterised this debate as "the sceptical thesis" and point out that the sceptics underestimate globalisation at the conceptual level by relying on a wholly economic approach and "equating it primarily with a perfectly integrated global market."⁸² It may well be more apposite to regard globalisation as an ongoing process existing at various different levels with states reacting to the demands of increased competition in specific ways but, most importantly, finding their room for manoeuvre curtailed by the need to attract and sustain inward investment. Within a context of enhanced global competition states are encouraged to remove barriers to the free flow of capital while the rights of consumers and labour are often subjugated by governments to the allure of large corporate investors. Held *et al* have described this third debate as "the transformationalist thesis." According to Held *et al* "transformationalists make no claims about the future trajectory of globalisation; nor do they seek to evaluate the present in relation to some single, fixed ideal-type 'globalised world',

⁷⁹ J Perraton, D Goldblatt, D Held, and A McGrew, "The Globalisation of Economic Activity", *New Political Economy*, Vol.2, No.2, 1997, p.257. A defining study in the hyper-globalisation lexicon was Kenichi Ohamae's, *The Borderless World*, London, HarperCollins, 1990.

⁸⁰ D Held, A McGrew, D Goldblatt and J Perraton, *Global Transformations: Politics, Economics and Culture*, Cambridge, Polity Press, 1999, p.5.

⁸¹ P Hirst and G Thomson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996.

whether a global market or a global civilisation. Rather, transformationalist accounts emphasise globalisation as a long-term historical process which is inscribed with contradictions and which is significantly shaped by conjunctural factors."⁸³ Thus transformationalists concede the advent of a new global phase of historical development but maintain that the process is multi-layered, contested, and open-ended.

A neo-Gramscian Approach to Globalisation

A broadly neo-Gramscian approach to the question of globalisation has been set out by Amoore *et al* in which the inevitability attached to the process by neo-liberals is brought under scrutiny. In this view, the neo-liberal portrayal of a globalising logic is rejected and the process is placed within a more materialist understanding of globalisation as a strategy of capital accumulation. For Amoore *et al*, "it may be more clarifying to talk about logic in terms of processes of capital accumulation, for example, as opposed to *the* logic of capital accumulation"⁸⁴ In the neo-Marxist tradition, this view sees globalisation as a social process capable of being rejected and resisted - a task which can be met both by "elaboration of an alternative political economy" and via "concrete strategies of resistance."⁸⁵ More specifically, Amoore *et al* outline a definition of economic globalisation in its neo-liberal manifestation in an attempt to overcome much of the "conceptual fuzziness" surrounding the current debate. The four 'defining' characteristics from this more critical perspective are as follows:

(i) to protect the interests of capital and expand the process of capital accumulation (if this is viewed as occurring within and because of a structural crisis in capitalism or a long-term economic stagnation, then neoliberal economic globalisation is essentially a strategy of crisis management or stabilisation); (ii) the

⁸² D Held et al, *Global Transformations*, p.5.

⁸³ *Ibid.*, p.7.

⁸⁴ L Amoore, R Dodgson, BK Gills, P Langley, D Marshall and I Watson, "Overturning 'Globalisation': Resisting the Telcological, Reclaiming the 'Political'", *New Political Economy*, Vol.2, No.1, 1997, p.180.

tendency towards homogenisation of state policies and even state forms in the direction of protecting capital and expanding the process of capital accumulation, via a new orthodoxy, i.e. market ideology (wherein even the state itself becomes subject to marketisation while simultaneously being deployed instrumentally on behalf of capital); (iii) the addition and expansion of a layer of transnationalised institutional authority above the states (which has the aim and purpose of penetrating states and re-articulating them to the purposes of global capital accumulation); and (iv) the exclusion of dissident social forces from the arena of state policy making (in order to insulate the new neoliberal state forms against the societies over which they preside and in order to facilitate the socialisation of risk on behalf of the interests of capital).⁸⁶

The crux of this argument, then, rests in the fact that globalisation is a political process brought about by active agents, rather than a teleological process naturally constructed by technological and economic change and impervious to being reversed or challenged either by national politicians or social forces acting at the sub-state level. Thus changes in the role of the state should not be conflated with its total emasculation or ability to direct state resources in a direction which would mitigate some of the worst excesses of economic globalisation. It is to the changing nature of the state as conceived by globalisation theory that we now turn.

The Competitive State

The process of globalisation has brought what Cerny terms the 'competitive state' to the fore.⁸⁷ This form of state retains strong nationalist tendencies, as governments strive to make their populations seem attractive to international capital investors searching for low cost and/or flexible labour markets, while also involving a more managerial than interventionist approach to economic policy - maintaining low inflation and restricting public spending being key features. In this sense, states are finding it almost impossible to devise serious

⁸⁵ *Ibid.*, p.180.

⁸⁶ *Ibid.*, p.181.

redistributive policies or a social compromise akin to the Keynesian welfare state which began to unravel in the West during the late 1970s. It is wrong, however, to view the state as merely the localised limb which reacts to every twitch of the global body. As John Dunning asserts, states are still the “initiators and supervisors of the system through which...resources are created and deployed”⁸⁸ and, in this sense, are complicit in devising strategies which complement globalisation. Moreover, a key point in the globalisation debate is the need to distinguish between state sovereignty and state autonomy.⁸⁹ The former often entails ascribing bounded identities regarding who does/does not belong within a given territory, negative forms of nationalism, and harsh immigration policies (another feature of globalisation), while the latter denotes the right to pursue democratic policies and national social projects without interference from the structural power of global capital. In sum, globalisation is occurring in so much that perceptions of politics and political possibilities are radically altering, the functions of the state are changing, and new forms of transnational politics (involving NGOs of various kinds and multinational corporations) are being forged. All of this is taking place against a backdrop of economic restructuring, burgeoning technological innovations outpacing political and social changes, and new forms of information and communication which look set, over time, to alter global politics as it exists presently.

Summary

The above framework, then, constitutes a multi-faceted approach to what can be broadly termed a new political economy framework. It draws on the best insights of 'new' or critical

⁸⁷ The term was first brought to the fore in P Cerny, *The Changing Architecture of Politics*, London, Sage 1990.

⁸⁸ J H Dunning, “Governments and the Macro-Organization of Economic Activity: An Historical and Spatial Perspective”, *Review of International Political Economy*, Vol.4, No.1, 1997, p.49.

⁸⁹ D Held and A McGrew, “Globalisation and the Liberal Democratic State”, *Government and Opposition*, Vol.28, No.2, 1993, p.265.

international political economy (especially the neo-Gramscian model), recent developments in state-society theory, key insights provided by historical sociology, and recent developments in globalisation theory. By way of summary let us briefly consider the utility of each approach for the thesis which follows.

Firstly, critical theories of international political economy as developed by Robert Cox. Critical IPE allows us to consider the relevance of state action within a context of global structural change while interrogating underlying structures themselves as they relate to dominant modes of power and ideology. Most importantly, critical IPE raises questions as to how the existing world order may be in the process of changing while stressing a normative commitment to a more egalitarian dispensation of power at the global level. Many of these changes are likely to be brought about by political agents at the state-society level and thus state-society theory helps in identifying the relevant agents and the way in which they act politically - though within the structural constraints highlighted by critical IPE.

As has been affirmed, state-society theory elucidates some of the complex sites of power which constitute the modern state in its extended formulation - as an entity both constitutive of society and constituted by society. Most significantly, global changes have brought a converged approach to state theory to the fore. In this approach, the relative merits of elitism, pluralism, and Marxism are accorded equal weight but no single theory is seen to dominate. This convergence of approaches is reinforced by the external force of globalisation which is changing the role and function of the capitalist state and which fundamentally alters the part played by specific actors within its institutional ambit. This approach does not, however, always capture the partially external role of the state in its control over military intervention and notions of nationhood.

Historical-sociological approaches to the state dovetail with state-society theory to a large extent (see Mann's approach above) but offer a useful insight into the manner in which culture and nationalism are utilised as resources of the state. This allows us to examine often irrational historico-cultural bonds of identity and notions of the nation-state without falling into the realist trap of treating the state as a unified actor divorced from society. It does, however, maintain the important realist view that state bureaucracies continue to control the finances and physical/human resources deployed in conflict. In this sense historical sociology challenges some of the exaggerated claims made in globalisation theory which completely negate the state's continued military role and the continued presence of conflict and national rivalries under globalised conditions.

The final section reviewed the burgeoning globalisation literature in a necessarily concise manner. The three views of globalisation summarised elucidate the contested nature of this ongoing theoretical and empirical debate. The view taken in this thesis concurs with the arguments advanced by Amoore et al and Held which contend that globalisation is a multi-faceted process rather than an economic *fait accompli*. Moreover, the process is capable of being resisted and restrained by both state and non-state actors. Particularly apposite is the view taken by Amoore *et al* that globalisation as popularly represented tends to reflect the narrow ideological predilections of neoliberalism and transnational capital. In conclusion, it is hoped that the above theoretical framework, by blending overlapping theoretical debates, can offer a nuanced platform for understanding a complex post-Cold War order in which the sites of social and structural power are more diverse.



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Chapter 2

The Historical Evolution of US-China Relations 1842-1992

Introduction

This chapter offers an historical overview of the evolution of US-China relations up until the election of the Clinton Administration in 1992 and, in line with the critical IPE approach of Robert Cox, aims to place US-China relations within a historical context. The first section takes the form of a general historical narrative tracing America's opening of relations with China during the 19th century until the onset of the Cold War. The second section offers a similarly general account of US-China relations during the Cold War which were marked by animosity and ideological rivalry, for the most part, and which culminated in the retreat of Mao's China into a position of international isolation during the Cultural Revolution's most intense phase between 1965-69. The third section considers in somewhat greater detail the unfolding of the US-China relationship from 1972 onwards when the two nations forged a conditional reconciliation officially sanctioned by the Shanghai Communiqué. Changes in the Cold War and the global political economy transformed the US-China relationship during the late 1970s and 1980s as the two sides became more interdependent in trading terms and as China's economy began its startling trajectory of double digit economic growth initiated by Deng Xiaoping's rolling program of economic modernization and market reforms. In the 1990s, as we shall discuss extensively below, the bilateral US-China relationship has been complicated by both the onset of new regional blocs in the world economy and by the symbiotic process of globalisation. Thus towards the denouement of the Bush administration what had been a geopolitical relationship in 1972 was fast returning to one which revolved around

geoeconomics and trade - though the terms of the trade relationship in the Clinton era have not been as one way as it was during the 19th century. Additionally, China policy in the 1990s has become more contested within the US with issues such as the environment and human rights playing far more prominent roles (than during the colonial era and the Cold War) as the consensus undergirding US foreign policy has gradually unravelled.

US-China Relations in the Colonial Era

Though the role of history should not be overstated in the context of contemporary political analysis neither should it be wholly ignored. Indeed, contemporary relations between the US and China across a whole spectrum of areas have been shaped by historical experience. Most notably, the historical foundation of modern relations between the two countries has been shaped by colonialism and imperialism and the enforced terms of trade and political subjugation these forces brought with them. China's initial relationship with foreign traders was founded upon the tributary system and the underlying supposition of Chinese racial supremacy to the "barbarians" from the West. The structure of the tributary system tended to favor Chinese traders selling silks, porcelain, teas, and chinaware and it was in order to alter the balance of trade in Britain's favour that British traders began selling vast quantities of opium to the Chinese populace. Despite the obviously damaging social effects of the opium trade the British policy was portrayed in terms of defending a liberal trading order throughout the world against a backward and unequal tributary system.¹ In 1842 the Chinese Emperor, Ch'i-ying and British envoy, Henry Pottinger, signed the Treaty of Nanjing which abolished Chinese monopolies of foreign trade at Canton, promised a fair trading system (i.e. the abolition of the tributary

system) and opened Chinese ports to British residence and trade (paving the way for other western countries). Three other treaties, including the American treaty of 1844, came to be known as the 'unequal treaties'. Significantly, the treaties introduced the concept of extraterritoriality (so crucial to contemporary globalisation) to China in that European and American citizens trading there were subject to the laws of their own state and exempted from Chinese jurisdiction. Notably, the American treaty extended upon the British provisions for extraterritoriality and gave the US all of the privileges for which Britain had fought.² Chinese nationalist leader Sun Yat-sen would later refer to China's status following the unequal treaties as that of a 'sub-colony' - a country of lower status than a colony in that its territory was controlled by a clutch of imperialist powers.³ The US role in China's treatment by the imperialist powers in the nineteenth century is somewhat ambiguous. The US supported the British defence of free trade during the Opium War though denouncing the opium trade itself on moral grounds. Moreover, the US took full advantage of the outcome of the war and the subsequent treaties by demanding the same rights and privileges accorded to the European powers under most-favoured-nation status. Towards the end of the nineteenth century, the United States government initiated a new phase in its relationship with China by advocating an Open Door trade policy which was aimed at preventing the imperialist powers from carving China into 'spheres of influence.' Again, in one sense the United States was inextricably embroiled in European expansionism by taking full advantage of Britain's upkeep of a free trading global order

¹ JK Fairbank, EO Reischauer and AM Craig, *East Asia: Tradition and Transformation*, Boston, Houghton-Mifflin Company, 1989, p.456.

² *Ibid.*, p.460.

³ E Fung, "Chinese Nationalism in the Twentieth Century", in C Mackerras (ed) *East and Southeast Asia: A Multidisciplinary Survey*, Boulder, Colorado, 1995, p.179.

without sharing in the military responsibilities required to guarantee that order's smooth running. The Open Door policy derived, in no small part, from America's need to find foreign markets due to the rise of industries producing cheap products at home, the gradual eclipse of America's frontier, as well as a missionary tradition which combined religion and commercial zeal. Also in that year manufactured products began to account for more than 90% of American exports to China, while the absolute volume of exports rose from \$3.2 million in 1895 to \$13.1 million in 1899. As Arnold Xiangze Jiang points out, "these statistics bolstered the widespread expectation that, given an open door to China's market, the United States could become economically dominant."⁴ Also during this time a broader interest in the China market began to take root within the US business community. In 1898 the American Asiatic Association was founded with the express purpose of lobbying for government initiatives on behalf of US commercial interests in China. As Michael Schaller notes, "although no coordinated policy yet existed, a broad concern with East Asia had developed among policy planners and business leaders."⁵ The US government and business community were as keen to take advantage of the 1895 Treaty of Shimonoseki, imposed on China following the Sino-Japanese war of 1895, as the other powers. The Treaty abolished several internal taxes, granted foreigners the right to set up autonomous industrial enterprises within China, and extended the market for merchandise and investment.⁶ Yet in many respects the US had little choice in altering its behavior since, during the period 1870-1900 the liberal world order was beginning to

⁴ AX Jiang, *The United States and China*, Chicago, University of Chicago Press, 1988, p. 19.

⁵ M Schaller, *The United States and China in the Twentieth Century*, New York, Oxford University Press, 1979, p.26.

⁶ Jiang, *The United States and America*, p.20.

crumble and fragment into what Cox describes as “conflicting national ambitions.”⁷ In this sense, the US can be seen as attempting to promote a limited form of liberalism in China under severe constraints imposed by the increasingly neo-mercantilist strategies adopted by Britain and the imperial powers in the post-liberal era.

Open Door to Free Trade

In 1899 US Secretary of State, John Hay, issued his first Open Door notes “to preserve the tradition of equal opportunity, an open door for trade, in the face of imperialist spheres of influence.” In 1900, a second Open Door note was enunciated and elaborated on the US desire for a solution that would bring “permanent safety and peace to China, preserve Chinese territorial and administrative entity, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire.”⁸ Thus, although the US’s policies were driven by commercial criteria they did not seek direct territorial advantage and augured the beginning of America’s liberal internationalist ascension as Britain became bogged down by the politics of the Empire. Nevertheless, the United States’ economic interest in China was not deemed vital at the beginning of the twentieth century and the US was unwilling to take military action should any of the imperial powers have proven recalcitrant over the US push for an Open Door policy.⁹ The operations of the Imperial powers in China were, however, provocative enough to induce the Boxer Uprising in 1900 in which anti-foreign groups targeted western traders and missionaries. Ultimately, however, the uprising only consolidated the position of Russia, France, Britain and

⁷ RW Cox, *Production, Power, and World Order: Social Forces in the Making of History*, New York, Columbia University Press, 1987, p.163.

⁸ Hay’s Open Door notes, cited in Fairbank *et al*, *East Asia: Tradition and Transformation*, p.456.

⁹ WI Cohen, *America’s Response to China: An Interpretative History of Sino-American Relations*, John Wiley and Sons, New York, 1971, p.65.

Germany who collectively imposed a harsh settlement on the Qing rulers for supporting the insurgent factions. This settlement required China to pay large indemnities and succumb to the stationing of greater numbers of foreign troops.¹⁰ More importantly, the uprising very nearly destroyed America's carefully cultivated China policy and compounded the anti-colonial feeling in China stemming from the unequal treaties.

US-China Relations in the Early Twentieth Century

During the period leading up to the First World War the United States interest in China's market sharply declined. Between 1900 and 1910 cotton exports to North China and Manchuria (which had seemed to be prospering in the 1890s) were curtailed. This was, in the main, due to China's lack of political stability, its weak government and the negative experiences of US businessmen. US exporters became aware of the dearth of purchasing power among China's consumers as well as China's weak communication and transportation infrastructure¹¹ - an endemic feature of China's economic interaction with the global economy which continues unabated to this day in respect of most of the country. Moreover, US business became more internally focused during the first two decades of the twentieth century as the domestic economic downturn of the 1890s subsided and the quest for overseas markets abated. In this sense, the US was less inclined to become embroiled in imperial disputes, notably the Japanese- Russian conflict over Manchuria in 1904, and US business tended to be more motivated by accumulating profits at home. This stance towards China also reflected the more European focus of US policy under Theodore Roosevelt. Attempts were made under the Presidency of William Howard Taft to resurrect US interest in China, fearing Japan's potential exploitation of

¹⁰ Schaller, *The United States and China in the Twentieth Century*, p.29.

Manchuria as a springboard to economic expansion. In 1911 Taft and his Secretary of State, Philander L Knox, embarked upon the policy of 'dollar diplomacy' in an attempt to augment US trading relations as a liberal alternative to the aggressive policies undertaken by the European powers and Japan. In a direct attempt to counter Japanese activities in Manchuria Taft and Knox tried, though ultimately failed, to stimulate a new round of US private investment in China in 1911 and 1912. This failure was hardly surprising given the collapse of the Qing dynasty in 1911 and the uncertainty over China's new national government. As Michael Schaller points out, most US investors were disinclined "to sink funds into a disputed region of questionable value with no promise of firm government protection."¹² Again, these issues have resurfaced in the contemporary period due to China's undeveloped legal structure and opaque economic system.

Relations Post-World War I

After the First World War China remained in a state of virtual anarchy and, following the death of nationalist leader, Yuan Shikai, in 1916, China had no effective central government. Until the late 1920s China's regions were in the hands of warlords. Thus, China was in a very weak position when the Treaty of Versailles was concluded by the victorious allied powers in 1919. Under the treaty Japan was allowed to maintain the territory of Shandong which had been wrested from Germany following an agreement between Japan and the United States. The main consequence of the Versailles Treaty was that it instigated the beginning of a more cohesive anti-imperialist movement in China initially characterised by the May Fourth Movement and ultimately consolidated by the

¹¹ Cohen, *America's Response to China*, p.67.

¹² Schaller, *The United States and China in the Twentieth Century*, pp.31-32.

emergence of Soviet Russia which gave support to the nationalist cause.¹³ The broader significance of the movement for the US was that it was the first nationalist cause which had mobilised mass support and which registered disillusion with liberal democracy among China's political classes. This disillusion was underscored when, at the Washington Conference of Pacific powers held in 1921-22, there was no undertaking to rescind the unequal treaties or to curtail foreign domination of the Chinese mainland despite a pledge not to interfere with China's political and territorial integrity under the Nine Power Treaty which followed.¹⁴ The United States, it has to be said, was largely forced to relinquish Woodrow Wilson's liberal idealism in order to preserve a commitment to the Open Door policy in China - though the US was clearly committed to maintaining free trade and a treaty advantageous to itself.

From the Depression to the Communist Victory of 1949

The Wall Street Crash of 1929 threw the US-China relationship back into a state of profound uncertainty and, moreover, exposed the fledgling Guomindang (KMT) government (which had forged a nationalist government in 1927) under Chiang Kaishek to the global repercussions of a capitalist crisis. The main implications were that the closure of western markets to Japanese exports once again induced an expansionist Japanese foreign policy and, in 1931, the Japanese intervened militarily in Manchuria creating the artificial state of Manchukuo. The US response to this incident was crucial and reflected the Hoover Administration's preoccupation with the depression at home. Secretary of State, Henry L Stimson, announced a Non-Recognition Doctrine aimed towards territories taken by Japan but, notably, there was no move to assist China's nationalist government

¹³ Fung, *Chinese Nationalism in the Twentieth Century*, p.183.

nor to impose economic sanctions on the aggressor.¹⁵ The situation in China was complicated by the internal war between the Communist forces of Mao Zedong and the KMT which raged between 1931 and 1937 when, under pressure from the Soviet Union, a United Front was formed in the war against the Japanese invasion of that year. The collapse of the United Front in 1940 raised serious problems for US policy in China given the growing threat of Japan. US actions during the Civil War were, however, pivotal in determining China's stance in 1949 with the establishment of a Chinese Communist Party (CCP) government. The basic thrust of US policy between 1938 and 1944 was that of aiding the KMT economically and militarily in the war against Japan in the full knowledge that large amounts of US aid were being hoarded in order to fight the Communists following Japanese defeat - despite significant KMT defections to the Japanese cause. Indeed, following American entry to the war in December 1941, Chiang Kaishek's nationalist forces even threatened to join with Japan in an "Asiatic Solidarity" should US economic aid be refused. In 1942 the KMT was given some \$500 million in loans, much of which was used in a domestic bond issue to keep inflation under control or to fight the Communists.¹⁶ Towards the end of World War II the United States sought a compromise in the ongoing Civil War between the KMT and the CCP, fearing that Soviet entry to the war against Japan, which was broadly welcomed by the US, would bolster Communist forces in China and enhance the geopolitical position of the Soviets following the war. It was for this reason that the US continued to champion the cause of Chiang's Kuomintang forces following Japanese defeat. In essence, this entailed the support of a bureaucratic

¹⁴ Schaller, *The United States and China in the Twentieth Century*, p.37

¹⁵ *Ibid*, p.41.

¹⁶ Jiang, *The United States and China*, p.106.

capitalist elite at the expense of an increasingly popular Communist Party which had consistently sought US support and which had fought the Japanese with greater resolution than the KMT. This strategy had its roots in nascent designs for US hegemony in the region and the assumption that the key feature of the new Asian order would be anti-Communism. US aid to the KMT between 1945 and 1948 totaled some \$1,432 million and, on April 3 1948, Congress passed the China Aid Act authorising the dispensation \$463 million to the nationalists.¹⁷ However, despite persistent efforts by the US to prop up Chiang the Communists came to power on October 1, 1949, declaring a People's Republic and signalling both the defeat of America's long-term strategy and the delivery of a potentially huge market into the socialist camp.

US-China Relations During the Cold War

Following Communist victory in China the domestic landscape of US politics changed considerably. The McCarthyite atmosphere of political persecution drew great succour from the Truman Administration's supposed loss of China and pressure mounted to isolate China politically and economically. Moreover, the outbreak of the Korean War in 1950 and China's swift engagement "suggested that Mao Zedong could be induced to follow Soviet orders with just enough enthusiasm seriously to endanger America's Pacific interests and allies."¹⁸ A key feature of US-China relations throughout the Eisenhower presidency was the imposition of a trade embargo by the capitalist world and primarily enforced by the US. According to Breslin, only 8% of Chinese trade in 1949 was with the

¹⁷ *Ibid.*, p.130.

¹⁸ N Bernkopf Tucker, "Cold War Contacts: America and China, 1952-56" in H Harding and Y Ming (eds), *Sino-American Relations, 1945-55: A Joint Reassessment of a Critical Debate*, Scholarly Resource Books, Wilmington, Delaware, 1989, p.238.

Communist world; by 1952 this had risen to 87%.¹⁹ It was under such economic constraints that China declared its intention to 'lean to one side' and support the Soviet Union despite serious reservations. The fact that the Soviets had consistently supported Chiang's KMT during the Chinese civil war and Stalin had cast aspersions upon the efficacy of China's rural-based Communist experiment demonstrated that the Sino-Soviet relationship was marked by tensions from the outset. As again Breslin puts it, "if the Americans took a hostile stance towards the Chinese because they thought China was part of an international socialist bloc, then their actions became a self-fulfilling prophecy."²⁰

A key feature of the US trade embargo (achieved by extending the allied Co-ordinating Committee (COCOM) restrictions on trade with the Soviets to China and North Korea in July 1951) was the fact that it engendered a great deal of resentment among America's allies in Europe and with Japan. Britain led these protests, claiming that the embargo increased dependency on the resource-rich US and fearing the repercussions for Hong Kong as well as the unease which would arise among Commonwealth countries such as India, Ceylon and Pakistan. As Bernkopf Tucker points out, "the British and Europeans, generally, wanted a minimal control system prohibiting only the sale of goods with clear war potential, whereas the Americans desired broader prohibitions that would hinder development on the Communist bloc's industrial base."²¹

The United States also feared Japan's enthusiasm for augmenting its trading relationship with China in the belief that any resultant economic dependency on China's market could pull Japan towards the Communist bloc. It was for this reason that CHINCOM was

¹⁹ S Breslin, *Mao*, Longman, London, 1998, p.151.

²⁰ *Ibid*, p.151.

²¹ Bernkopf-Tucker, *Cold War Contacts*, p.460.

formed, as a semi-autonomous sub-committee of COCOM, following European objections to an entirely separate agency to regulate Asian trade. CHINCOM's express purpose was to regulate trade to China and entailed China's trade being subjected to rather more scrutiny than other Communist countries.²² The United States continued to support nationalist Taiwan and, in 1954, concluded the Mutual Defence Treaty following the first Formosa Straits Crisis of September 1954 when the Chinese shelled the offshore islands of Quemoy and Matsu in order to signal the Communist commitment to reunifying all of China. This action was repeated in 1958 as Chinese foreign policy became ever more revolutionary in reaction to Khrushchev's denunciation of Stalin and his promotion of revisionist doctrines. More importantly, from 1956 onwards the reality of a Sino-Soviet split became ever more apparent as the Soviets distanced themselves from China over the bombing of Quemoy and Matsu in 1958 and failed to support the Chinese invasion of Tibet in 1959. The shifting ideological position of the Soviets was compounded by a geopolitical switch in 1962 when Khrushchev supported India in a violent border dispute with China that year. The split also had economic dimensions in that the Chinese were increasingly perturbed by the conditions attached to Soviet aid and the unsuitability of Soviet industrial plants in the Chinese context. It was in these circumstances that China embarked upon the ultimately disastrous Great Leap Forward programme of agricultural reform in 1957 in which as many as thirty million Chinese would perish.

It is in the context of China's isolation from both the US and the Soviet Union that we have to seek to understand US-China relations in the early 1960s. Significantly, both the US and the Soviets were keen to entice non-aligned India into their camps and both had

²² *Ibid*, p.243.

been alarmed by China's revolutionary soundings in the previous decade. Though the US trade embargo remained in place, changes in the perception of Communism as a monolith did begin to occur among US policymakers and the Kennedy Administration briefly considered supplying China with food as the Great Leap Forward came to an abrupt end in 1962. Again, a key feature of the US-China relationship during the 1960s was the extent to which US allies were departing from COCOM trade restrictions. Indeed, between 1963 and 1967 Japan's trade with the PRC amounted to \$2.03 billion making it China's premier trade partner. Australia, meanwhile, built up a market in China based on wheat sales which amounted to some \$256 million by 1963. Similarly, Canada entered into agreements for the sale of barley to the PRC amounting to some \$362 million between 1960 and 1963.²³

Much more significantly, France shattered the Western consensus on China policy by establishing full diplomatic contacts with China in 1964.²⁴ Despite such economic contacts with the West, China embarked upon the Cultural Revolution between 1965-69 and some of that revolution's most fervent proponents in the CCP, notably Lin Biao, encouraged the export of Chinese revolutionary ideals and the creation of global upheavals likely to weaken the capitalist nations.²⁵ Much of this anti-Western rhetoric, however, concealed China's deep-seated need for Western economic assistance and growing alienation from the Soviet Union. In March 1969 the Sino-Soviet split was transformed into open conflict as troops from each nation clashed along the Amur and Ussuri rivers and the prospect of a Soviet nuclear strike on China began to appear a possibility. It was this breach between

²³ R Foot, *The Practice of Power: US Relations with China Since 1949*, Oxford, Oxford University Press, 1995, p.69-70.

²⁴ Breslin, *Mao*, p.160.

the two Communist powers combined with US involvement in the Vietnam War that persuaded the incoming Nixon Administration to pursue a policy of rapprochement with China in the hope of playing upon Communist divisions and using China to elicit a favorable settlement to the war.

Reconciliation

At a deeper level, the US rapprochement with China has to be understood within the context of structural changes in the Cold War and institutional changes relating to China's participation in the global community. Firstly, from the early 1970s onwards the Vietnam war was placing a huge burden on the US economy, reinforcing gradual disillusionment with policies of global containment within the US establishment. Moreover, the Sino-Soviet split encouraged a re-evaluation of the dominant notion that the Communist bloc was somehow monolithic. Recognition of the PRC, then, also ran side by side with a wider reassessment of US power symbolised most potently by the fact that, in 1971, the US government had been forced to jettison the Bretton Woods system of fixed exchange rates due to the spiralling deficits incurred during the Vietnam war. This move, almost instantly, removed the cooperative rationale underpinning economic relations among the countries of the western capitalist world. Thus, the US desire to cultivate relations with the PRC must also be viewed in a longer term perspective motivated by "the allure of a boundless Chinese market."²⁶ This point seems particularly pertinent given the fact that several of the advanced capitalist countries had cultivated trading relations with the Chinese during the 1960s (see above). Perhaps, even more significantly, the US and China forged friendly

²⁵ JD Spence, *The Search for Modern China*, London, Hutchinson, 1990, p.627.

relations during a period when revolutionary forces seemed to be gaining confidence in the Third World inspired by the Brezhnev doctrine of 1968. China's anti-Soviet foreign policy had led its leaders towards the "intermediary" capitalist powers of western Europe in search of trading partners, to right-wing western political forces for political support *vis a vis* the Soviets, and towards supporting authoritarian Third World countries such as Iran, Ethiopia, and Pakistan. As Chesneaux points out, this led to a decrease in the aid China gave to revolutionary movements in the 1960s.²⁷ Secondly, China was admitted to the United Nations in 1971 just prior to official reconciliation with the United States. As Rosemary Foot notes, "if we focus on US structural co-optive power, we might note that China entered into the United Nations at a time when Beijing had visibly become a strategic ally of the United States, of presumed value in the task of containing a more assertive Soviet Union."²⁸ Moreover, the co-option of a nation formerly viewed as a champion of the Third World had serious ramifications for the New International Economic Order (NIEO) project in the early 1970s and which derived most of its support from within the UN. Indeed, from 1971 onwards China's behaviour became far more conservative on the international scene. Though helping less developing countries in such causes as supporting the regulation of multi-national corporations, obtaining fairer terms for technology transfer from the advanced nations and favouring the rescheduling of foreign debts, the Chinese did not join the non-aligned movement nor OPEC (despite being an oil exporter). Moreover, moving nearer to the present, China has gone on to join

²⁶ D Lampton, "America's China Policy: Developing a Fifth Strategy," in R Macchiarola and R Oxnam (eds), *The China Challenge: American Policies in East Asia*, Academy of Political Science, New York, 1991, p. 152.

²⁷ J Chesneaux, *China: The People's Republic 1949-1976*, Hassocks, Harvester press, 1979, p. 186.

²⁸ Foot, *The Practice of Power*, p. 18.

the IMF, the World Bank and to seek membership of GATT and the WTO.²⁹ China's initial entry to the UN was hugely influenced by the impact of the economist and revisionist tendency in China as well as the new emphasis being placed on economic progress. Jean Chesneaux argues that the UN facilitated economic and technical contacts with the West and the purchase of factories and patents in the advanced sectors.³⁰ In short, China's entrance into the international order has to be seen against a backdrop of US structural power over global institutions in terms of shaping norms, rules, and behaviour conducive to broader US economic interests. This has meant that since 1972 China has become more involved with the global economy and the global community at various levels. The US, meanwhile, has been able to use its structural largesse in order to "facilitate or retard the pace of that involvement"³¹ at both the bilateral and multilateral levels. Importantly, the US is not the sole beneficiary of economic engagement and China's leadership has undoubtedly used international recognition and contacts with the US to develop the Chinese national economy's infrastructure and lay the foundations for economic growth and prosperity. At this juncture it is worth giving a brief account of the bilateral dimension to US-China relations since 1972 in a more specific manner.

On February 28, 1972, and following highly secretive contacts between US national security adviser, Henry Kissinger, and his Chinese counterpart, Zhou Enlai, an agreement to resume full diplomatic relations between the two countries was officially declared in the form of the Shanghai Communiqué. The agreement was viewed by both sides as a

²⁹ J Teufel-Dreyer, *China's Political System: Modernisation and Tradition*, London, Macmillan, 1996, pp.322-23.

³⁰ Chesneaux, *China: The People's Republic*, p.186.

springboard to the full normalisation of relations following over two decades of estrangement. In short, the Communiqué was an agreement to recognise mutual points of difference and, notably, the status of Taiwan was confirmed within the Communiqué as a “long standing and serious dispute.”³² Nevertheless, the Communiqué adumbrated the intentions of both governments to “facilitate the further development of contacts and exchanges” as well as to facilitate “the progressive development of trade” and “stay in contact through various channels.”³³ A key backdrop to this new phase in US-China relations, however, was the implicit commitment to develop a new counterweight to Soviet power and, in the American case, to capitalise upon the Sino-Soviet split briefly discussed above. In the view of David Lampton, this new phase in America’s approach to Chinese communism denoted the demise of a policy which had long “misjudged the degree of solidarity between the Soviet union and China, misread Chinese objectives in Asia, misunderstood why Mao Zedong and his Long March colleagues won the revolution, and overestimated American capabilities.”³⁴ It is in this sense, as outlined above, that changes in US-China policy were part of a major rethinking of US foreign policy and the conventional Cold War wisdom.

A major dynamic in this rethinking was the new salience of China as a potential recipient of US exports and the emergence of a previously downplayed political economy element to the relationship. Indeed, from the starting point of virtually zero trade contacts

³¹ Foot, *The Practice of Power*, p.19.

³² A Doak Barnett, *China and the Major Powers in East Asia*, Washington D.C., Brookings Institution, 1977, p.200.

³³ *Ibid*, p.200.

³⁴ Lampton, *America’s China Policy: Developing a Fifth Strategy*, p.152.

between the two nations, the US was China's third largest trade partner by 1973 with trade amounting to some \$803 million. Indeed, between 1972 and 1979 (the year relations were officially normalised) China imported a total of \$1.94 billion in goods from the US and exported \$887 million worth of goods to the US.³⁵ As Foot notes, however, "high expectations regarding the China market remained unfulfilled, America accounting for only 2.6% of China's imports and 2.5% of its exports in 1977."³⁶ The United States remained some twenty years behind Japan and its western European allies in cultivating trading relations with China and also had to contend with a ramshackle legal and institutional context largely inimical to the coordination of trade on a significant scale. Moreover, several factors within China's political milieu precluded a wholesale commitment to foreign trade and outside influences until Deng Xiaoping's assumption of the leadership of the CCP in 1978. These factors were both ideological and economic. Firstly, it was felt that contact with the West was likely to undermine the authority of the Communist system and create a systemic dependency on the US and other advanced capitalist countries. As Foot notes, this was compounded by China huge trade deficit which, in 1974, amounted to some \$1.2 billion.³⁷

Viewed in terms of the Cold War system, the goal of the US was "to draw ...formerly closed systems towards the world-economy and in this way erode their planned, autarchic character."³⁸ It was the recognition of this fact which generated heated debate within

³⁵ Foot, *The Practice of Power*, pp.75-76.

³⁶ *Ibid*, p.77.

³⁷ *Ibid*, p.77.

³⁸ M Cox, "Rethinking the End of the Cold War." *Review of International Studies*, Vol.20, No.2, 1994, p.197.

China between hard-line Marxist ideologues (such as the Gang of Four led by Mao's widow Jiang Qing) and moderate forces led by Zhou Enlai and, following Zhou's death in 1976, Deng Xiaoping. The form of economic policy *vis a vis* foreign powers favoured by those espousing a Maoist foreign policy prioritised the view that imports should be covered by volume of exports while the utilisation of foreign credit should be kept to a minimum. Reformers favoured the root and branch modernisation of the Chinese economic infrastructure and a move away from the celebration of politics over economics characteristic of the Cultural Revolution and Mao's later years. In short, these domestic disputes centered on nothing less than the future of China in the global economy and, quite naturally, stalled full progress in trade relations with the US. The views of those opposed to further interaction with the US were reinforced by widespread disillusion with America's policy of *Détente* towards the Soviet Union - a process which reached its apogee with the Ford Administration's conclusion of the Helsinki Accords in 1975. The Chinese leadership felt that the US had "stood on China's shoulders" in order to bring the Soviets to the negotiating table and fiercely resisted the closer relations which unfolded between the Soviet Union and the US between 1972 and 1979.³⁹ US foreign policy during this period was greatly influenced by the Trilateral Commission and nascent ideas concerned with growing interdependency in the global economy. In the trilateral view, cooperative rather than conflictual relations with ideological rivals were more conducive to overall US interests. Cooperative relations were entrenched by tying countries to international regimes and institutions likely to moderate their behaviour and to result in their respect for norms and values consistent with stability within a liberal world order.

³⁹ M Oksenberg, "A Decade in Sino-American Relations," *Foreign Affairs*, Vol.61, No.1, 1982, p.180.

Significantly, global stability outweighed concerns with democracy at home and abroad in the light of an ever more competitive and turbulent global economy. Thus, the Communist nature of the Chinese regime became gradually less important than its willingness to enter the United Nations or the World Bank for, in the long term, such institutions were bound to promote both capitalism and liberal democracy.⁴⁰ Moreover, these ideas had a great deal of influence over the Carter Administration as it attempted to adjust the US to changes in the world economy.⁴¹

Normalisation

The Carter Administration initially placed China fairly low on its list of priorities given the internal power struggles within China and the concentration upon ratifying the Panama Canal treaty, reaching SALT II with the Soviet Union, and elevating human rights concerns as the central plank of Carter's post-Vietnam and post-Watergate emphasis on US moral leadership. Moreover, events in Central America, notably the victory of Daniel Ortega's socialist movement in Nicaragua, forced the Administration to undertake a new appraisal of socialism as a democratic force in world politics. This marked a key, if brief, departure from established Cold War policy and enhanced the position of those pushing for closer relations with both China and the Soviet Union. In time, however, the Carter Administration became divided between supporters of a traditional Cold War policy who sought to use China as a strategic ally against the Soviets (represented by National Security Advisor, Zbigniew Brzezinski) and those favouring Détente and the conclusion of SALT II with the Soviet Union (a faction led by Secretary of State, Cyrus Vance.) In

⁴⁰ See MJ Crozier, S Huntington, and J Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, New York, New York University Press, 1975.

many respects, it was the former bureaucratic constituency which prevailed in the arguments surrounding the normalisation of relations with China. However, this severely understates some of the broader economic factors involved in normalisation and China's incremental journey towards the global economy.

The Carter Administration's China policy was genuinely different from that of Nixon and Kissinger in that Carter himself placed a strong emphasis on cultural and scientific ties and the placement of the relationship on a deeper economic and political footing which moved beyond the narrow *realpolitik* of Kissinger.⁴² Carter believed strongly in the promotion of US values and technocratic expertise as a means to alleviate poverty in China and, perhaps implicitly, as an indirect method of achieving long-term human rights objectives beginning with basic economic provisions to the world's largest national populace. This approach to China, then, had both moral and technocratic components - dual traits personified by Carter himself. Moreover, this broader emphasis on the political economy aspect of US-China relations largely dovetailed with Deng Xiaoping's consolidation of power in 1978 following his prolonged struggle with leftist and reactionary forces in Beijing since Mao's death in 1976. It is worth going into some detail here.

Deng's consolidation of power engendered both political and economic stability - in 1978 US-China trade tripled and China's trade with the global economy rose by some 40%⁴³ - and, more importantly, signaled a new path in China's approach to development. Market incentives came to replace revolutionary zeal in economic policy and Deng's 'Four Modernisation's (agriculture, science and technology, industry, and military capability)

⁴¹ For a discussion see J Dumbrell, *The Carter Presidency: A Re-evaluation*, Manchester, Manchester University Press, pp.111-12.

⁴² Oksenberg, *A Decade in Sino-American Relations*, p.184.

took their place as the new national policy framework. Key domestic reforms included the Joint Venture Law of July, 1979, which clearly signaled China's desire to attract foreign investment overturning the pattern of reticent engagement with the global economy prior to 1978. As Jeffrey Conklin points out, "the investment which followed not only introduced the first large quantities of foreign capital to the Chinese economy, it brought with it new technologies, management 'know-how' and export channels for China's fledgling industrial sectors."⁴⁴ This law permitted foreign partners to hold a stake of 25% to 100% of a joint venture and subjected companies to 30% tax rates as well as a 10% local tax rate. Much of the production was required to take place in the advanced capitalist countries in order to secure the repatriation of profits in foreign currency.⁴⁵ The Joint Venture Law was accompanied, in 1980, by a new open door policy - only now China was the initiator. The Special Economic Zone (SEZ) Act of August 1980 introduced a series of market reforms (primarily the decollectivisation of agriculture) in designated areas in China's coastal regions and encouraged the local populace to produce for profit as well as the inflow of foreign capital. Perhaps most significantly, China embarked upon a series of structural reforms aimed at stabilising rates of growth; reforming economic management; reorganising enterprises; and improving productivity, technology, and management.⁴⁶

These reforms were particularly important in that they saw China adopting macroeconomic policies in the fiscal sphere similar to those utilised in the advanced, often

⁴³ Foot, *The Practice of Power*, p.78.

⁴⁴ JC Conklin, *Forging an East Asian Foreign Policy*, Lanham, Maryland, University Press of America, 1995, p.29.

⁴⁵ *Ibid*, p.29.

more social democratic, capitalist countries. Indeed, the Chinese government was able to keep inflation at a sufficiently low level to make China attractive to foreign investors from the outset.⁴⁷ Also, as Susan Shirk makes clear, China was able to take full advantage of the expansion of international finance in the 1970s and to make use of foreign capital to a far greater extent than its Asian neighbors had in the 1960s. This combined with an influx of capital from overseas Chinese communities to entwine China with the global economy, particularly financial markets, much more quickly than even the Newly Industrialising Countries (NICs) of East Asia.⁴⁸ At the bilateral level the procurement of US technology became a firm priority as did the importation of scientific expertise. The official normalisation of US-China relations in January 1979 speeded up this process as did Deng's visit to the US in mid 1979 which portrayed an image of a China open to western contacts and capital investment. Bilateral ties were consolidated by the setting up of a Joint Sino-American Economic Commission and a Joint Sino-American Scientific Commission in 1979, again illuminating the new breadth at work in the relationship. Between 1978 and 1979 bilateral trade increased by some 200% (worth some \$2.3 billion).⁴⁹ At the multilateral level, meanwhile, China became more embroiled in the global economy by entering both the World Bank and the International Monetary Fund (IMF) as it became clear that the key to China's modernisation lay in Washington, both in itself, and as gatekeeper to the institutions of the global political economy and international

⁴⁶ J Tsao and J Whisler, *China Briefing Paper*, Office of Economics Working Paper, US International Trade Commission, Washington D.C., June 1995, p.8.

⁴⁷ Y Funabashi, M Oksenberg and H Weiss, *An Emerging China in a World of Interdependence: A Report to the Trilateral Commission*, The Trilateral Commission, New York, 1994, p.34.

⁴⁸ S L Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, The Brookings Institution, Washington D.C., 1994, p.34.

⁴⁹ JR Faust and JL Kornberg, *China in World Politics*, Boulder, Col, Lynne Rienner, 1995, p.138.

community.⁵⁰ However, several bilateral issues continued to preclude an entirely predictable US-China relationship many of which emanated from right-wing elements within the US Congress.

The main thorn in the side of the normalisation process was a wealthy and well organised Taiwan lobby within Congress which garnered support from those outraged by Taiwan's treatment during the normalisation process. Ideological conservatives found some common-cause with humanitarian liberals perturbed by the PRC's little-mentioned human rights record. The Congressional lobby opposed to Carter's China policy pointed out the supposed hypocrisy involved in the Administration's downplaying of human rights in the light of an ever more hostile stance towards the Soviet Union. Moreover, in 1978 Congress had passed the Dole-Stone Amendment which instructed the Administration to consult Congress over any change in the status of Taiwan. The Administration, however, failed to inform Congress of the specific terms involved in the normalisation agreement, thereby inciting the powerful Taiwan lobby to mount a direct challenge Carter's entire China policy. Indeed, Senator Barry Goldwater mounted a successful legal challenge, later overturned, in the federal courts contesting the constitutionality of Carter's revocation of the Mutual Defence Treaty of 1954 pledging the US to the defence of Taiwan.⁵¹ Worse was to follow. America's entire China policy was thrown into schism as the Congress approved the Taiwan Relations Act in February 1979 which reaffirmed the US's role in the defence of Taiwan and which the Chinese initially viewed as a 'two China' policy incompatible with normalised relations. The Act threatened to provide Taiwan with

⁵⁰ See H Jacobsen and M Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order*, Ann Arbor, University of Michigan Press, 1990.

"such defence articles and defensive...services as may be necessary" and to "preserve" and "promote" US-Taiwan relations across a wide spectrum of issues.⁵² This apparent bifurcation of US China policy left the Chinese leadership rather incredulous and confused as to where power lay in the US, exposing, as it did, the self-undermining and contradictory tendencies of the US political process.

In spite of the sticking point of Taiwan, and anger over substantial US arms sales to Taiwan in both 1979 and 1980, the Chinese appetite for capital and technology superseded disputes over security issues. In short, the political economy aspect of US-China relations clearly overrode often exaggerated disputes over Taiwan. Moreover, the Soviet invasion of Afghanistan in December 1979 acted as the catalyst for political forces on both sides, particularly within the Pentagon and the NSC in the US, to push for the augmentation of the military relationship as a response to perceived advances in Soviet power. The Carter Administration remained largely quiescent when the PRC invaded Vietnam in February 1979 (which proved a disastrous mistake for the Chinese military) while US Defence Secretary, Harold Brown, visited China in January 1980 to discuss military cooperation, informing the Chinese of US preparedness to sell a range of "non-lethal" military equipment.⁵³ In April 1980 the US Commerce Department, under Juanita Kreps, reclassified China's export status from that covering Warsaw pact Countries (Category Y) to Category P, thus placing China outside the ambit of COCOM restrictions on military sales to Communist countries. The result was over four hundred advanced-technology

⁵¹ H Harding, *A Fragile Relationship: The United States and China Since 1972*, Washington D.C., Brookings Institution, 1992, pp.117-118.

⁵² G K Kindermann, "Washington Between Beijing and Taipei: The Restructured Triangle 1978-1980", *Asian Survey*, Vol.20, No.5, 1980, p.464.

items being cleared for export by September 1980 with, at least, minimal potential for military application.⁵⁴

In January 1980 Congress approved a Trade Agreement between the US and China drafted by the Commerce Department. Implicit in the agreement was the conferral of full most-favored nation (MFN) status on China - something denied to the Soviet Union at that time. The reaching of a bilateral agreement on trade was about far more than economics in that it signifies the abandonment of the notionally 'even-handed' balance being maintained between China and the Soviet Union. In effect, the Act confirmed China's anomalous position within US foreign policy - a special case towards which previously accepted standards of engagement failed to apply.⁵⁵

The conclusion of the trade agreement with China and the initiation of a new phase in US-China relations occurred against a backdrop of anti-Soviet sentiments and the revival of a 'second Cold War' in which the Soviet Union was portrayed as the root cause of America's problems in the world.⁵⁶ For hard-liners China was, indeed, simply a 'card' to play against the Soviets in the pursuit of geopolitical superiority.⁵⁷

As we have seen, however, the trade act takes its place alongside several other developments (notably China's entry to the World Bank and domestic economic reforms) as part of a deeper process of China's progressive absorption into the global economy.

⁵³ HN Kim and JL Hammersmith, "US-China Relations in the Post-Normalisation Era, 1979-1985", *Pacific Affairs*, Vol.59, No.1, p.73.

⁵⁴ *Ibid*, p.74.

⁵⁵ Under the provision of the Jackson-Vanik Amendment to the 1974 Trade Act conferral of MFN upon Communist countries was made conditional upon their acceptance of freedom of emigration. Somewhat ironically, Senator Henry Jackson, the Democratic architect of the legislation, voted for the 1980 Trade agreement with China.

⁵⁶ See F Halliday, *The Making of the Second Cold War*, London, Verso, 1984.

⁵⁷ See Z Brzezinski's account of the normalisation process in Z Brzezinski, *Power and Principle*, London, Weidenfeld and Nicolson, 1984.

Importantly, reforms in China made China fertile enough economically to encourage the first shoots of US private sector activity gradually to expand, compounding nascent US business activity in 1978. During that first year of Deng's reform program, the Fluor Corporation (dealing in copper plants), Boeing, US Steel and Pan-American Airlines, among others, had made early inroads into the China market.⁵⁸ This was buttressed by the opening of US Export-Import Bank (EXIM) facilities and guarantees as well as the provision of loans and insurance from the Overseas Private Investment Corporation (OPIC) under the auspices of the US-China trade agreement.⁵⁹ The trade agreement sought to establish "all necessary facilities for financial, currency, and banking transactions", encompassing patent, copyright and trademark protection.⁶⁰ This, in turn, combined with China's domestic reforms in laying the foundations for multi-national company investment and the incremental inroads made by global finance during the 1980s. Again, China's continued growth became inexorably bound up with the granting of World Bank and IMF loans guaranteeing Chinese liquidity, the provision of technology and expertise, and a willingness to sell military equipment.

The Political Economy of US-China Relations in the 1980s

The election of the Reagan Administration is almost coterminous with the advance of New Right economic policies and, more specifically, a neo-liberal economic agenda with great global significance. Reagan's domestic policies of deregulation, privatisation, and the slashing of social welfare were combined with strong arm tactics to bring organised labour

⁵⁸ T Qingshan, *The Making of US-China Policy: From Normalisation to the Post Cold War Era*, Boulder, Lynne Rienner, 1992, p.62.

⁵⁹ T Williams, "First National Bank of Chicago has made Two Small Loans", *Far Eastern Economic Review*, March 7, 1980, p.66.

into line with state policies which were unapologetically laissez-faire. It is against this backdrop that America's staunchly anti-Communist foreign policy during the 1980s has to be understood. Communist regimes were not only the enemy of freedom but also the enemy of free markets. Indeed, highly interventionist states were also deemed enemies of individual enterprise and economic prosperity during this period. Thus it is fair to say that as a Communist country undertaking market reforms China fitted rather awkwardly into the Reagan Administration's view of the world. On the one hand, China was curtailing individual rights and free enterprises as understood in the New Right lexicon while, on the other, China was a country implementing a sweeping program of economic reform and was showing signs of becoming a lucrative market for American companies in the near future. It is the contradiction between these two factors which seems to have characterised US Policy during the 1980s.

It is also the case, as will be discussed below, that some analytical distance has to be maintained between America's China policy as it related to specific issues and the overall structural implications of neo-liberalism during the 1980s as its influence came to dominate trends in the world economy.

The election of Ronald Reagan as US President in 1980 initially appeared to rupture the relative stability in relations which had accrued during the Carter Administration. As a presidential candidate Reagan had denounced the Carter Administration's China policy as "totally unreliable and capricious" in the manner it had condemned Taiwan to the sidelines of US foreign policy.⁶¹ Indeed, Reagan had served on the advisory board of Jack

⁶⁰ JA Cohen, "Building Up a Joint Economic Framework", *Far Eastern Economic Review*, March 7, 1980, p.42.

⁶¹ Cited in Kim and Hammersmith, *US-China Relations in the Post-Normalization Era*, p.75.

Buttram's neo-conservative lobby group 'Friends of a Free China' and played to the right-wing gallery during the election campaign, promising specifically to re-establish full diplomatic relations with Taiwan. However, it soon became clear that Reagan's China policy in praxis did not reflect the bluster of the campaign and was, indeed, to be conducted on a remarkably pragmatic basis. Reagan's toning down of pro-Taiwanese rhetoric in large part reflected his Administration's pre-occupation with the Soviet Union, with particular attention focused upon events in Poland in 1981 and the prospect of a Soviet reassertion of power in Poland where Lech Walesa's Solidarity movement had been gaining increasing support.

Though resolutely anti-Communist the Reagan Administration was characterised in general by bitter divisions, and Reagan's 'hands off' style of political management allowed disputes to run interminably within the bureaucracy. China policy was certainly no exception and the battle lines were drawn initially between Alexander Haig's State Department, espousing a realist synthesis of world affairs, and Richard Allen's National Security Council (NSC), which adopted a rigidly neo-conservative ideological standpoint. Haig thus urged the constructive engagement of China as a strategic ally while Allen advocated a pro-Taiwanese policy which, if put into practice, was likely to reverse the achievements made under the Carter Administration. During 1981 and 1982 the Haig position prevailed, though the Administration tended to deal with China on a reactive basis determined by issues rather than an overall policy approach. Again, this reflected the disputes which raged within the Administration during the early 1980s. Indeed, Reagan's China policy in the early phase of the Administration was largely dominated by the Taiwan issue, with the Chinese government continuing to protest US arms sales to the government

in Taipei. Significantly, however, the Chinese government did welcome Reagan's bellicose posture towards the Soviet Union only to conclude, by 1982, that Reaganism was a largely symbolic venture devoid of political commitment. In large part, this emanated from Reagan's realisation that the practical implications of his Administration's often hysterical rhetoric were too cataclysmic to contemplate in a nuclear world. Thus by 1982 the Chinese government began criticising the developing US stance as constituting a 'passive position.'⁶² In 1982 Secretary of State, Alexander Haig, declared China to be "the most important country in the world" for US strategic interests representing the linchpin, as it were, in the complex geo-political matrix between East and West, North and South.⁶³

Haig's resignation in June 1982, however, was followed by a qualitatively new approach to China policy enunciated by his successor at the State department, George Shultz. The new US approach was more concerned with the Asia-pacific as a region. Shultz stressed that the US's policies would be increasingly harnessed to Japan's dynamic economy and its technologically advanced, though lean, naval and air power trajectory. In short, the new Asia policy recognised Japan's role as a regional economic leader and concentrated far less on anti-communism as a rationale for policy. Shultz's shift in policy was especially prescient in that it foresaw the increasing impotence of Soviet power as well as the fundamentally economic foundation upon which US national interests and US foreign policy would be predicated in the future. Increasingly, China was viewed as a regional,

⁶² Chinese official, cited in R Ross, "China Learns to Compromise: Change in US-China Relations, 1982-1984", *China Quarterly*, No.128, 1991, p.747.

⁶³ H Harding, *A Fragile Relationship*, p.119.

rather than global, power broker and a "passive...counterweight to Soviet power."⁶⁴ This 'new reality' in US foreign policy thinking, then, also marked, in the words of Garrett and Glaser, "a new appreciation of China's poverty, backwardness, and preoccupation with economic modernisation."⁶⁵

As briefly mentioned above, the Taiwan arms sales issue had caused some serious tensions and internecine exchanges between the US and China's leadership which demanded an end to all US sales during the early years of the Reagan Administration. This issue was defused somewhat by a Joint Communiqué announced on August 17 1982 in which the Reagan Administration once again reaffirmed its commitment to the Shanghai Communiqué and the recognition of one China as well as the principle of non-interference in matters relating to the unification of Taiwan with the mainland. More importantly, the Communiqué also contained a US pledge to "reduce gradually its sales of arms to Taiwan, leading over time to its resolution."⁶⁶ A second contentious issue emerged concerning China's application for membership of the Asian Development Bank (ADB) in February 1983. The Chinese government demanded that Taiwan be expelled from membership of the bank given Taiwan's non-sovereign status. This elicited a US response in which threats were made to withdraw all US contributions to the ADB should Taiwan be ousted from membership. Following three years of stalemate the issue was successfully resolved when, in march 1986, Taiwan agreed to desist using the name Republic of China during meetings of the ADB while consenting to the removal of the Taiwanese flag from the ADB's headquarters.

⁶⁴ BN Garrett and BS Glaser, "From Nixon to Reagan: China's Changing Role in American Strategy", in KA Oye, RJ Lieber, and D Rothchild (eds), *Eagle Resurgent: The Reagan Era in American Foreign Policy*, Boston, Little Brown, 1987, p.270.

⁶⁵ *Ibid*, p.271.

⁶⁶ Harding, *A Fragile Relationship*, pp.383-86.

The strong irredentist sentiments expressed by the PRC over this matter were indicative of increasing nationalism concomitant with Deng's modernisation program, economic growth, and a new found national confidence embodied by China's political elites in the CCP.⁶⁷

Between 1982 and 1989 China pursued an 'independent' foreign policy, so called because the leadership straddled the line between maintaining constructive relations with both the US and the Soviet Union. In some respects, however, the idea of China's independent foreign policy, which has become common parlance in commentaries upon China in the 1980s, masks the extent to which China continued to become embroiled in the global economy and the way in which the Chinese state's modernisation policies were dictated by the increasingly neo-liberal expectations of global lending institutions. Though Japan was China's largest creditor in the 1980s (ironically Japan was also buying up large swathes of the American economy in government bonds and large swathes of America in real estate during this period) China received some \$7.4 billion in loans from the World Bank between 1980-89, making it the bank's largest borrower.⁶⁸ China also accrued standby credit from the IMF for the first time and began raising funds on the Eurodollar bond market.⁶⁹ Bilateral trade also grew substantially during the Reagan era and was worth \$14 billion by 1988 - up 40% from the previous year.⁷⁰ The US had become China's second largest export market while, importantly, US investment was becoming an increasingly salient factor in the relationship. Chinese officials contrasted the US approach to investment with that of Japan which they viewed, probably unfairly, as simply plying the

⁶⁷ Ross, *China Learns to Compromise*, pp.751-53.

⁶⁸ Jacobsen and Oksenberg, *China's participation in the IMF, the World Bank, and GATT*. p.118.

⁶⁹ Foot, *The Practice of Power*, p.233.

Chinese with exports in order to retain long-term leverage in China's economy and the Asia-Pacific region.⁷¹ By 1988 US companies were investing in some 630 projects with \$3.5 billion having been poured into the Chinese economy, making the US second only to Hong Kong as a supplier of foreign direct investment (FDI).⁷²

Accompanying developments in US-China relations during the Reagan years was, of course, the rapid Soviet decline, the retreat of socialism and the onward march on neo-liberalism. This fundamental erosion in the main tenets of social and economic organisation in nations treading divergent paths from the Anglo-Saxon economic model further undermined the ostensibly socialistic traits of formerly closed economies like China's while it, at least temporarily, sounded the death knell for overly demand oriented economic strategies world-wide. This included social democratic governments pursuing state-led Keynesian policies in the face of the restructuring of the global economy and was exemplified by France's inability to pursue independent economic policies of reflation and nationalisation in the early 1980s. Thus it was not simply Communist countries which were on the defensive and, ironically, it may have been slightly easier for China to adapt to a new economic model given the fact that the old Communist system had never really delivered in economic terms in the first place. What it had done, however, was to centralise power and create a strong enough state to oversee economic reforms of the economy. It was in this context of deeper relations with the global economy that China limited its attacks on the US to criticism of US 'hegemony' in the Middle East and Central America, while intermittently posturing on behalf of the Third World. Moreover, renewed

⁷⁰ W Lord, "China and America: Beyond the Big Chill", *Foreign Affairs*, Vol.68, No.4, 1989, p.20.

⁷¹ J Chace, *The Consequences of the Peace: The New Internationalism and American Foreign Policy*, New York, Oxford University Press, 1992, p.113.

overtures towards the Soviet Union, which many commentators see as evidence of China's free hand in foreign policy in the 1980s, had ceased to concern the US by 1985 or so, as Mikhail Gorbachev embarked upon Perestroika and Glasnost and introduced market mechanisms into the Soviet economy to improve resource allocation. China itself during this period became more immersed in the new international division of labour concomitant with the onset of globalisation in production and dictated by the liberalisation of global financial markets. Chinese exports became increasingly concentrated in labour-intensive goods such as toys and in 1986 China began running its first significant trade deficits with the United States. The deficit that year surpassing \$1billion for the first time. In short, China's importance was fast becoming that of an economic competitor in the capitalist world-economy rather than a Cold War enemy, as in the 1950s and 60s, or a Cold War partner as in the 1970s. The 1980s bore out the fact that China's development had long comprised a complex mixture of ideology and national economic development and it was clear by the mid 80s that economic development was a priority and participation in the global economy a necessary part of sustaining stability and growth. As Funabashi *et al* point out, "the policies of the Deng era...made China more economically interdependent with the world than is usually imagined." Between 1980 and 1991 export volumes grew at an average annual rate of over 10% and, by the early 90s, were comparable to the export volumes of the west European economies. Moreover, the 1980s also witnessed the emergence of a consumer market in China as the emphasis changed from the import of large industrial plants early in the decade to the importation of major consumer goods,

⁷² Lord, *America and China: Beyond the Big Chill*, p.20.

telecommunications, and services.⁷³ Again, the most significant part of China's interaction with the US and the West was the official commitment to the import of foreign capital and technology. These policies were embodied in the sixth five-year plan (1981-85) which entrenched the concept of a socialist market economy stressing the new importance of quality control and consumer needs.⁷⁴ Also, from 1986 onwards the Chinese government has been attempting to join GATT (now the WTO) though it has been prevented from doing so by the US in a political tussle which has pitted neo-liberal norms at the global level against an incremental and state controlled reform process. It was these disputes, along with the issue of human rights, which carried over into the Bush Presidency and the collapse of Communism in the Soviet Union and Eastern Europe.

US-China Relations in the Post-Cold War Period

In 1989 US-China relations transmuted into an entirely new scenario as the collapse of Communism irrevocably altered America's role in the world. Without an anti-Communist foreign policy many members of the American political establishment sought a new *raison d'être* binding national policy together. For many, democracy and a commitment to human rights filled the vacuum left by Soviet demise while, for others, greater concentration on global markets seemed to signal the way forward. It is fairly safe to say that these contending visions were not satisfactorily resolved until the election of the Clinton Administration in 1992 and, even then, continued to generate controversy. The obvious pre-cursor to immediate changes in the tone and dynamics of the Bush Administration's relationship with China, following the relative calm of the period 1982-89, was the events at Tiananmen Square on 4 June, 1989. Equally, the shooting of Chinese students in their

⁷³ Funabashi et al, *An Emerging China in a World of Interdependence*, p.35.

thousands cannot be abstracted from the 'people power' revolution which was unraveling bloodlessly in Europe at that time. However, China's leaders, unlike their East European comrades, resisted democratic reform and placed priority upon maintaining order and preventing political entropy in the face of the collapse of authoritarian Communist ideology. The Chinese leadership's position also reflected a historically rooted fear among Chinese elites of China becoming atomised and ungovernable as it had been during the period of foreign domination.

The events at Tiananmen square were relayed across the world and, unsurprisingly, generated an inexorable momentum for tough action by the Bush Administration from both the US public and the Congress. However, Bush chose not to sever links with China in a comprehensive manner likely to make the relationship difficult to repair but did, nevertheless, suspend all government to government military sales and exchanges while pledging to treat visa extension applications by Chinese students resident in the US sympathetically. A host of other areas within the relationship were left open to review dependent on subsequent developments. These measures were, in short, extremely minimal and intended to suspend certain aspects of interaction rather than retaliate against China. Behind the scenes, moreover, Bush sought to reassure the Chinese leadership that the US was unwilling to act hastily and he dispatched National Security Advisor, Brent Scowcroft, and Deputy Secretary of State, Lawrence Eagleburger, to Beijing as soon as July 1989 in a covert attempt to maintain dialogue between the two governments. Indeed, only three weeks after the events at Tiananmen Square Secretary of State, James Baker, made it clear that human rights alone could not be allowed to dictate the US-China

⁷⁴ Tsao and Whisler, *China Briefing Paper*, p.8.

relationship, declaring that “the dismantling of a constructive...relationship built up so carefully over two decades would serve neither our interests nor those of the Chinese people.”⁷⁵ The main reason for maintaining relations on a sound footing was, of course, China’s burgeoning importance as a market for US exports and the need for the US to ensure China’s role in global economic stability be safeguarded from short-term political factors.

The Geo-Economic Agenda

In 1990 the US-China relationship came to be dominated, as it would be for several years thereafter, by the mainly Congressional penchant for using China’s MFN status to elicit favourable Chinese progress on human rights and, more significantly, as a way of registering disapproval with an ever growing trade deficit between the two countries. In 1990 the deficit stood at \$10 billion and rose to \$12 billion in 1991.⁷⁶ Indeed, during the latter half of the Bush Presidency a toughening in attitudes towards China began to take place reflecting a gradual realisation by the Bush Administration that the old order was giving way to a new era in which expanding US market share was displacing the national security concerns of the Cold War. Thus the Bush Administration began raising such bilateral economic issues as China’s alleged use of prison labour to cut the costs of Chinese exports; China’s incipient trade surplus mentioned above, general matters of market access for US products including Chinese over-use of quotas and licensing regulations; and matters relating to abuses of copyright and intellectual property rights (IPRs) by Chinese manufacturers. Much of this new found antipathy towards China was

⁷⁵ James Baker, cited in D Xinghao, “Managing Sino-American Relations in a Changing World”, *Asian Survey*, Vol.31, No.12, 1991, p.1158.

fueled by the US press which was in turn feeding off and creating an increasingly populist concern with relative US decline purportedly fed by anti-competitive practices elsewhere - first in Japan and now China.⁷⁷ In mid 1991 the Bush Administration went so far as to threaten trade sanctions should the Chinese authorities fail to address IPR abuses. In October 1991 Section 301 of the 1988 Trade Act was invoked, permitting a US investigation, carried out by the Office of the United States trade Representative (USTR), into China's trading practices.⁷⁸ According to *Business Week*, illegal copying of CDs and computer products had cost US companies \$400 million in 1990.⁷⁹ It was also significant that the US regained an interest in Chinese human rights conditions in the period following the fall of the Soviet Union. The main reason for this was that China's leaders viewed human rights as intimately tied in with China's ascension as an economic competitor and proof of protectionist tendencies within the US government. In April 1991, for instance, met with the Dalai Lama and raised human rights concerns with Chinese premier, Li Peng, at considerable length in 1990. The main purpose of Bush's human rights emphasis was probably symbolic, however, in the face of pressure from Congress to withdraw China's MFN trading status. The Administration, overall, was keen to push the agenda of economic engagement combined with tough negotiating on bilateral issues and China's entry to GATT. The emergent factionalism over US-China policy in the post-Cold War period will be addressed in Chapter four of this thesis as will the broader issue of human rights.

⁷⁶ N Lardy, *China in the World Economy*, Washington D.C., International Institute of Economics, 1994, p.74.

⁷⁷ Xinghao, *Managing Sino-American Relations*, p.1161.

⁷⁸ Foot, *The Practice of Power*, p.252.

⁷⁹ *Business Week*, April 22 1991, p.46.

The decline of US hegemony was well illustrated during the 1990-91 UN vote on intervention in the Gulf following Iraq's invasion of Kuwait. China's abstention in the vote on Resolution 678 authorising the use of force was crucial in that any vote against the motion would have, at the very least, delayed US intervention. China's decision also reinforced the argument that China could not be isolated in a more multilateral world order where the US could no longer act unilaterally. Indeed, during the Bush Administration China agreed to adhere to a host of multilateral actions and agreement favored by the US. China adhered to a UN boycott on arms to Iraq; participated in efforts to bring peace to Cambodia and to defuse tensions on the Korean peninsula; agreed to observe the principles of the Missile and Technology Control Regime (MTCR); and joined the nuclear Non-Proliferation Treaty (NPT) in 1992. This occurred against a backdrop of intermittent threats by the US to rescind China's MFN status due to human rights abuses. Bush's election campaign of 1992, for example, was sensitive to candidate Bill Clinton's claims that the president had 'coddled up' to dictators and Bush took the highly controversial decision during the 1992 campaign to sell F-16 Fighter jets to Taiwan to both appease his own right-wing and to neutralise Clinton's criticism.⁸⁰

Regionalism

During the Bush years China also emerged as a pivotal regional actor which had two major implications for US foreign policy. Firstly, China's growing power dovetailed with the Bush Administration's growing interest in regionalism as a means of securing US influence and open markets in the post-Cold War and post-hegemonic era. More specifically, attempts have been made to incorporate China with the Asia Pacific Economic

⁸⁰ Faust and Kornberg, *China in World Politics*, p.142.

Cooperation (APEC) forum set up in 1989 to encourage free trade within the Asia-Pacific region. Along with the North American Free Trade Agreement (NAFTA) signed in 1993, and largely the result of diplomacy during the Bush Administration, APEC represented a new commitment to economic multilateralism in the regional sphere underpinned by neo-liberal economic rules consecrated by the Uruguay round of GATT - also signed in 1993. In short, APEC regionalism extended US economic policies of free trade and market economics by multilateral means in an attempt to provide a new rationale for US power and influence in the region following the collapse of communism. Implicitly, US involvement in APEC also sought to promote a specific model of Anglo-Saxon free market capitalism and to challenge state interventionism and protectionism still rife in the region. Secondly, China's growth as a regional actor has also been important in terms of the power vacuum left in the region by the decline of US hegemony. The emergence of Greater China (China, Taiwan and Hong Kong) as an economic bloc has been extremely significant as has China's economic links with Japan. This second form of regionalism, then, is more indigenous to the region and is formed by local institutions and traditions. Moreover, it may offer an alternative to neo-liberal models of economic development recognising Asia's more distinctive state-led form of capitalism. These issues will be discussed further in chapter four.

Environmental Issues

Another issue to emerge on the global agenda in a serious manner during the Bush Administration was the issue of the environment and ecological sustainability. The 1992 Rio Conference on the World Environment represented the first major attempt to ameliorate outstanding issues of global concern such as greenhouse gas emission levels

and population control. As the two most polluting nations in the world the bilateral and multilateral understanding reached between the US and China holds great weight in terms of the future of the environmental debate and possible forms of environmental cooperation. Moreover, some of the key points of difference between the US and a still developing China polarise many of the North-South divides on the environmental issue. This topic will be addressed at greater length in chapter five.

Conclusion

This chapter has, essentially, sought to historicise the US-China relationship thereby placing the analysis contained in subsequent chapters in a wider and more long-term context. The first section of this chapter is particularly important in this respect in terms of understanding America's long-term links with China's colonial past and the economic domination which the imperial powers imposed. As stressed above, US complicity in Europe's fairly shabby treatment of nineteenth century China is undeniable but its purpose was rather more complex than that of the other powers. From the outset, the US was more concerned with open markets than territorial advantage and, as we have seen, distanced itself from European policies designed to create 'spheres of influence.' Rather, the US promoted an Open Door policy which, we have argued, was consistent with America's emergence as the gatekeeper of a liberal world order as the former hegemon, Britain, turned towards neo-mercantilist policies in China and elsewhere. Nevertheless, America's interest in China's market did lead to its acquiescence in policies following World War I which contributed to the emergence of Chinese nationalism on a serious scale. During the 1930s and 1940s, moreover, the US supported the forces of Chiang Kaishek's Guomindang largely because of the fact that Chiang guaranteed the maintenance

of open markets and espoused a resolutely anti-Communist line favorable to the US. This has to be placed in the context of an emerging post war order increasingly likely to be delineated by a Free World- Communist divide in the eyes of the Roosevelt Administration. US support for the KMT during the Chinese Civil War resulted in a Chinese Communist Party (CCP) which was more anti-American than it may otherwise have been upon assuming power in 1949. Moreover, US support for the KMT and enduring links with Taiwan have had a lasting impact on US-China relations which continue in the contemporary period. During the 1950s China became an enemy in more than just ideological terms when Mao's troops entered the Korean War in 1950. As we have seen, the subsequent US trade embargo of China sowed the seeds of discord among Western European allies who, in the 1960s, began forging their own relations with China despite US hostility. This fact, along with the Sino-Soviet split and US difficulties in Vietnam, convinced the Nixon Administration that a reconciliation with China was desirable. This, we argue, was driven both by strategic and economic factors and must be viewed in accordance with key structural changes in the Cold War and the world-economy in the early 1970s - namely the breakdown of the US containment policy in Vietnam and the Nixon Administration's eschewal of a global fixed exchanged rate in 1971. The latter measure, in effect, turned allies into economic competitors and goes some way in explaining a new concern with retrieving lost ground in trade relations with China. Moreover, the 1970s also marked China's entry into global institutions such as the UN and its resolution of key ideological arguments about the role of the market in Chinese society following the death of Mao and the demise of his distinctive socialist ideas. This process of drawing China closer towards the global economy was compounded at the

bilateral level by the normalisation of relations during the Carter Administration. The normalisation process also revealed, however, tensions within the US political system over engaging China and the issues of Taiwan and human rights can be seen to have complicated matters and continue to be highly relevant in the context of the contemporary debate.

The 1980s, we argued, must be understood in the context of the rise of neo-liberal ideology at the global level. China's participation in the World Bank and IMF from 1980 onwards, combined with domestic market reforms and increasing reliance on financial capital, made China more and more susceptible to the activities of global markets and the policies of trade liberalisation promoted by global institutions and the US. The collapse of the Soviet Union and the retreat of socialism more generally have meant that China's modernisation drive has increasingly moved away from Marxist economic policies, though state intervention at the macroeconomic level has been marked as has state control over society. What has also emerged is the extent to which the US enjoys key structural advantages over China in dictating the timetable for China's entry to GATT (now the WTO) and in terms of possessing many of the hi-tech exports and technologies pivotal to China's further development. In short, we argue that during the 1980s the underlying political economy of US-China relations has been characterised by China's growing interaction with the global economy and the new importance of the China market to domestic US constituencies.

Into the 1990s both the US and the Chinese state can be seen as having to play two hands simultaneously. Firstly, the Janus-faced US state has been coming to terms with its role in the post-hegemonic world in trying to satisfy various domestic pressure groups while also

trying to devise a coherent state strategy in Washington. Similarly, the Chinese state has been attempting to balance integration with the global market and domestic economic and social stability. These factors lead to severe contradictions in US-China relations as regards the relationship between deregulated free markets and social stability which will be discussed further in subsequent chapters. What did emerge during the Bush years, however, was a clear re-prioritisation of China's importance from that of a strategic ally to that of an economic competitor. Ironically, then, China's Communism has become more of an issue in the post-Cold War era than during the 1970s and 1980s precisely because all over the world diverse forms of state intervention in the economy have come under attack from neo-liberals promoting a specific model of capitalism. It is this clash between capitalist models which provides much of the backdrop for subsequent chapters as they relate to economic relations, regionalism, and environmentalism in the context of US-China relations in the contemporary era.

Finally, this chapter gives some evidence of the historical continuity of US policies directed towards prising open China's markets since the nineteenth century. The contentious nature of current disputes have much to do with the manner in which Chinese sovereignty was violated at the hands of colonial powers. In this vein, we could see certain aspects of the WTO agenda as attempting to compromise the Chinese state's jurisdiction over its chosen economic and social policies. Similarly, we can see that America's attempts to secure an Open Door to China's market has solid historical foundations. In this sense the Cold War was something of an aberration and the post-Cold War period has seen a return to America's historical preoccupation with including China within the family of a liberal trading order.



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Chapter 3

US-China Trade Relations

Introduction

Although this thesis is focused upon the political economy of 'US-China' relations during the contemporary period it also seeks to counter the view that there is such a thing as a 'national' economic policy in an era of global markets. This is not to say that national economic strategies do not exist but that they are formed and implemented within the parameters set by the global economy. Nowhere is this clearer than in any analysis of the political economy of US-China trade relations as they relate to both bilateral and multilateral issues. In this chapter we argue that the debate over US-China trade must be placed within the wider context of globalisation, particularly the manner in which factors relevant to trends in the global economy cut into ostensibly bilateral disputes. In this crucial sense, the US can be seen as pushing the neo-liberal agenda of trade liberalisation and the opening of markets upon a China which continues to seek a viable national economic strategy within the constraints of globalisation.

An adjunct of this argument is that the strategy of US trade negotiators carries within it major contradictions. On the one hand, there exists the fairly remorseless attempt to remove Chinese trade barriers and restrictions on capital flows while, on the other, there also exists the wish to promote an economic and social stability which would be threatened by any hasty departure from China's successful strategy of incremental reform. In this sense, the practice of American policy recognises the severe limitations of market resolutions to many of its bilateral trade problems with China. Drawing on the theoretical framework advanced in chapter one, a neo-Gramscian conception of hegemonic power can be used to explain China's general

compliance with trade reforms while US hegemony over global institutions goes some way in explaining China's attempt to enter the GATT and its successor, the World Trade Organisation.

The arguments in this chapter are organised as follows. Firstly, the chapter sets out the underlying political economy of the Clinton Administration and the centrality of China's expanding market in relation to US trade policy. Secondly, it explores the highly contested nature of America's China policy in particular relation to China's Most Favoured Nation (MFN) status and other related trade issues. The argument here being that there is no single China policy. Rather, an ongoing struggle has been taking place within the US state reflecting the division of powers within US foreign policy.¹ Also relevant here is the skewed nature of the debate over the trade deficit which, in its bilateral form, seriously downplays key statistical disparities between the two governments as well as structural reasons why the deficit exists. Thirdly, this chapter assesses, using recent evidence, the issue of China's accession to the World Trade Organisation (WTO) and the various sectoral disputes which have suffused these protracted negotiations. Fourthly, the chapter assesses China's ability to comply with US demands for trade liberalisation and explores some of the contradictions between the US push for market opening on the one hand, and the optimal concern of both Chinese and US elites with financial and social stability on the other. This argument is taken up in relation to China's reform of State-Owned Enterprises (SOEs) and the unemployment problems which result. This section also discusses the Asian financial crisis of 1997-98 as a possible turning point in US-China relations and particularly the neo-liberal reforms being encouraged by the US at both the bilateral and multilateral levels.

¹ J Shinn, "The Risks of Engagement" in J Shinn (ed), *Weaving the Net: Conditional Engagement with China*, New York, Council on Foreign Relations, 1996, p.88.

The Clinton Administration's Big Emerging Market (BEM) Strategy

At its inception the Clinton Administration advanced a fairly clear agenda which stressed that its overarching priorities were those of asserting US competitiveness within a highly globalised economy. As Martin Walker puts it, "Clinton's central insight into the way the world was changing" was "that the Cold War system of geo-politics and geo-strategy was giving way to an era of geo-economics and geo-finance."² This strategy was characterised by a shift away from the state's minimal role in promoting US business interests and towards the active construction of a working partnership between government and industry.³ One of the overall tasks of this new partnership was to identify key Big Emerging Markets (BEMs) and then to set about making sure US companies captured as great a portion of global market share as possible, so as to sustain US economic domination of the world market into the next century. Built into this strategy was the assumption that there existed an "unfair playing field" in that economic intervention by governments in Japan, China, and Germany gave rise to market restrictions that were disadvantageous to US firms more used to government apathy in global trade. Jeffrey Garten, Clinton's first term Assistant Secretary of State for Commerce and the intellectual force behind the BEM strategy, talked of government and business as being part of the same "team" and as sharing the same interests in shaping America's post-Cold War foreign policy.⁴ China was foremost among the ten BEMs targeted by the Commerce Department - the others being Taiwan, Hong Kong, Indonesia, India, South Korea, Mexico, Brazil and Argentina. It was estimated that by the year 2000 US trade with these ten countries would supersede trade with Japan and Europe - though such claims have since been exposed as

² M Walker, *Clinton: The President They Deserve*, London, Fourth Estate, 1996, pp. 286-287.

³ M Cox, *US Foreign Policy After the Cold War: Superpower Without a Mission*, London, Royal Institute of International Affairs, 1995, p.24.

⁴ J Garten, "Competing to Win in the Global Marketplace", *The China Business Review*, July-August, 1995.

exaggerated and can be seen as part of the Commerce Department's attempt to enhance its own position within the Administration. It is worth bearing in mind that in 1994 China represented a mere 1.8% of global US exports.⁵ Moreover, around 44% of non-US growth in global imports was thought likely to be attributable to the BEMs by 2010.⁶ These percentages as they relate to China perhaps overestimate its real economic importance to the US. BEMs were also viewed as "regional engines" of growth - hence their economic importance intersected with the emerging emphasis of US foreign policy on regional free trade blocs such as APEC.⁷ The emergence of the competitive state in the post-Cold-War era has also been intimately bound up with economic globalisation and the transnational character of US firms. In this sense, economic activity at the bilateral trade level has often been complicated by the 'who is us?' problematic identified by Robert Reich in relation to 'national' conceptions of economic policy *vis a vis* the global economic strategies of transnational companies.⁸ As will be demonstrated below with regard to Hong Kong's role in US-China trade, economic activity no longer conforms to the interaction of purely national entities due to profound changes in the global structure of trade and production (pointed out in our opening chapter.) Thus from the outset the idea of bilateral trade has to be qualified with reference to regional and global shifts in the composition of production. In this sense, inter-company and intra-company trade can often tell us more than simplified statistics relating to supposedly national economic interactions. That said, the concept of bilateral trade remains *politically* crucial in the context of domestic US politics. This is particularly the case in relation to trade with China. In the political sphere China is seen as a potential geo-political competitor in future years and as a

⁵ RG Sutter with Seong-Eun Choi, *Shaping China's Future in World Affairs: The Role of the United States*, Boulder, Westview, 1996, p.114.

⁶ Cox, *Superpower Without a Mission?*, p.34.

⁷ J Strelau, "Clinton's Dollar Diplomacy", *Foreign Policy*, No.97, 1994-95, p.24.

possible regional and/or global hegemon. These political factors, though often irrational, do impact heavily on the trade debate and the way it is manipulated for political purposes. Let us now briefly outline initial estimations as to the importance of the China market as they were manifested at the beginning of Clinton's two terms in office and the way awareness of this coincided with a broader strategy of developing policies based on geo-economics.

China's market quickly assumed overall priority for US policymakers for reasons of sheer economic scale, consumer demand, and potential infrastructural investment. Indeed, Clinton's first Commerce Secretary, Ron Brown, called the China market "the pot of gold at the end of the rainbow."⁹ In 1993 estimates suggested that China would spend \$560 billion on telecommunications, airports, highways, water and sewage treatment and power generation - economic modernisations requiring high value-added goods and thereby making China particularly attractive to the US private sector. By 1993 it was estimated that there existed some 300 million consumers in China, an increase from just 60 million in 1978.¹⁰ By 1992 and Clinton's election to the White House, US foreign investors were the second largest source of Foreign Direct Investment (FDI) in China with an estimated 2,800 projects worth over \$6.3 billion finalised in 1992. In 1993 US firms invested around \$3 billion in China.¹¹ By 1994 US companies had made investment commitments worth \$26 billion in China involving over 20,000 projects.¹² Indeed, since the beginning of China's economic reform process US firms

⁸ See R Reich, *The Work of Nations: Preparing Ourselves for 21st-Century Capitalism*, New York, Alfred A Knopf, 1991.

⁹ Quoted in M Weidenbaum, "China's New Economic Scenario: The Future of Sino-American Relations", *Orbis*, Vol.43, No.2, 1999, p.226.

¹⁰ IC Hsu, *The Rise of Modern China*, New York, Oxford University Press, 1994, p.955

¹¹ X Yi, "China's US Policy Conundrum in the 1990s: Balancing Autonomy and Interdependence", *Asian Survey*, Vol.34, No.8, August 1994, p.676.

¹² E Vogel, "Introduction: How Can the United States and China Pursue Common Interests and Manage Differences?", in E Vogel (ed), *Living With China: US-China Relations in the Twenty-First Century*, New York, WW Norton, 1997, p.46.

had, by 1995, invested some \$175 billion in the Chinese economy.¹³ In terms of America's exports China had also become an increasingly indispensable consumer of US products. In 1991 and 1992 US exports to China grew by 54% while in the first three quarters of 1993 they grew by 21.5%. As Lardy notes, "in 1992 alone, US exports to China grew almost 20%, more than 10 times the average rate of US exports to developed-country markets and almost half again as rapidly as the average growth of US exports to all developing countries." Again, according to Lardy, "the cumulative rate of expansion of US exports to China over this period is roughly twice that to Mexico, Taiwan, Singapore, or Hong Kong."¹⁴ The ascendancy of China's role in the world and its new position at the apex of US economic strategy served to generate a new debate as to the nature of engagement and whether political and moral interests should outweigh commercial and other interests concerned with China's military potential.¹⁵ The political focus for this debate came to revolve around the renewal of China's MFN and the bilateral economic issues it raised - particularly those pertinent to human rights and the US-China trade deficit. It is to this issue that we turn first.

MFN

On 28 May 1993 President Clinton enunciated an Executive Order which bound China's MFN status to "overall significant progress" made by China on human rights issues and which would come under review the following year. As Wendell Wilkie has noted, this position represented

¹³ P Tarnoff, "Building a New Consensus on China", *US Department of State*, February 20, 1997.

¹⁴ N Lardy, *China in the World Economy*, Washington D.C., Institute for International Economics, 1994, p.117.

¹⁵ For differing views of China at the outset of the Clinton Administration, see R Ross, "US Policy Toward China" in R J Art and S Brown (eds), *US Foreign Policy: The Search for a New Role*, New York, Macmillan, 1993, pp.338-356; R H Munro, "Awakening Dragon: The Real Danger in Asia is from China", *Policy Review*, No.62, Fall 1992, pp. 10-16; RC Bush, "Clinton and China: Scenarios for the Future", *The China Business Review*, January-February 1993, pp.16-20.

a continuation of the Congressional position on MFN under Bush.¹⁶ In the interim, however, the US vigorously pursued a number of high profile trade missions and the managed trade strategy of the Administration's economic agencies soon began to pay dividends. During 1993 Boeing captured an \$800 million deal with the Chinese government involving the purchase of 21 jet liners. The Chinese government ordered 4,600 vehicles each from General Motors, Ford, and Chrysler, worth \$160 million. Over \$200 million of oil drilling and exploration equipment was purchased from companies in Texas, Louisiana and Washington, while \$800 million of satellites was purchased from Hughes Aerospace. AT&T, meanwhile, expected to install half of the 15 million telephone lines in China each year, having secured several years of contracts.¹⁷ Importantly, a fierce political debate sprung up during 1993 in which advocates of a human rights position were brought into conflict with the new largesse of Clinton's restructured economic agencies.¹⁸

This conflict took three forms. Firstly, it involved conflict between the Treasury department under Lloyd Bentsen, Commerce under Ron Brown and the National Economic Council (NEC) under Robert Rubin on the side of delinking human rights from MFN with Anthony Lake's National Security Council and Warren Christopher's State Department pushing strongly for a China policy underpinned by human rights concerns.¹⁹ Secondly, the Congress splintered into various China factions, from those advocating free trade to those taking a more protectionist line or advocating a firm stand on human rights. The US-China Act of 1993

¹⁶ W Wilkie, "MFN in the Spring of 1994" in W Wilkie and J Lilley (eds), *Beyond MFN: Trade with China and American Interests*, Washington DC, American Enterprise Institute, 1994, p.141.

¹⁷ Hsu, *The Rise of Modern China*, pp.966-67.

¹⁸ By restructured it is meant that economic agencies had been given new impetus and business much greater access to government strategy.

¹⁹ For good discussions of the bureaucratic wrangling over MFN within the Clinton Administration see, D Lampton, "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage", *The China Quarterly*, No.139, 1994, pp.597-621.

accepted the Clinton Administration's waiver of MFN sanctions for another year but required that China undertake a number of reforms: (i) mandatory compliance with the 1992 US-China prison labour agreement (relating to imports which relied on prison labour; (ii) significant progress with respect to the Universal Declaration of Human Rights; and (iii) releasing and accounting for Chinese citizens imprisoned or detained for the non-violent expression of political and religious beliefs, ensuring humane treatment of prisoners by international humanitarian and human rights organisations, permitting Tibet's religious and cultural heritage, and permitting international radio and TV broadcasts into China.²⁰ Thirdly, a massive lobbying campaign was waged by corporate America and many within the Administration stressing the cost of MFN withdrawal for US jobs. In 1993 nearly 300 corporate leaders, representing companies that exported \$7.5 billion to China in 1992, sent an open letter to Clinton opposing "withdrawing or placing further conditions on MFN" which could "terminate the large potential benefits of the trading relationship." Significantly, corporate lobbying was accompanied by a Chinese decision to enter the fray shortly before the MFN renewal deadline in 1994. A Chinese government delegation visiting the US purchased \$200 billion of oil drilling equipment in Texas and Louisiana, \$160 million of automobiles in Detroit, and \$800 million in aircraft from Boeing in Seattle.²¹

Early in 1994 Clinton devised a policy of "inclusive engagement" which sought both to persuade China to improve human rights but also to enhance trade links - a stance which already augured the new policy of engaging China economically while paying rhetorical attention to human rights issues. In January 1994 Clinton dispatched Agriculture Secretary Mike Epsy and Treasury Secretary Lloyd Bentsen on trade missions. Significantly, during

²⁰ VN Pregelj, "Most Favoured Nation Status of the People's Republic of China", *CRS Issue Brief IB97039*, Congressional Research Service, 1997, p.3.

Secretary of State Christopher's February 1994 visit to China to promote human rights the 200 business leaders who accompanied him sided with the Chinese government in rebuffing his demands that China comply with human rights standards. As Hsu notes, the Chinese government deployed a "divide and rule" tactic serenading US corporations while allowing them to take the Chinese case to the US government.²² There was also a widespread belief among Chinese elites that the MFN-human rights linkage policy was simply a ruse to thwart China's economic growth (an average of 9.2% between 1978-1993), to impose America's cultural values on the Chinese people, and to dress US protectionism in the language of political rights. In short, the policy was seen as both hegemonic and as evidence of a continued unilateral approach to trade issues with global significance.²³ This is also evidence of the Chinese propensity to view foreign economic relations in starkly realist terms and, wrongly, ascribes the US state and US values as somehow holistic. For all that, this view carries great weight in Chinese political debate.

Amidst these trade wrangles, not only were US corporations siding with the Chinese government, but also during Christopher's visit, the US Ambassador, Stapleton Roy, contradicted him pointing to the export opportunities of the China market and stressing the socially liberalising side effects of economic modernisation. During Richard Gephardt's (the House majority Leader) visit to Beijing in 1994 he acknowledged the mixed signals being sent out by the Clinton Administration on where its priorities lay and the confusion of such a

²¹ R Bernstein and R Dicker, "Human Rights First", *Foreign Policy*, No.94, 1994, pp.44-45.

²² Hsu, *The Rise of Modern China*, p.970.

²³ M Wan, "Human Rights and Sino-US Relations: Policies and Changing Realities", *The Pacific Review*, Vol.10, No.2, 1997, p.240.

prominent US political figure further highlighted schisms over trade policy within the US state as a whole.²⁴

In May 1994 President Clinton decided that the linkage policy was no longer sustainable and it was eschewed in favour of a policy of 'comprehensive engagement.' One of the main reasons for this was the fact that European competitors were far less concerned about human rights than the US congress. In November, 1993, a German delegation, headed by Chancellor Kohl, secured \$2.8 billion worth of contracts for German firms just as China came under increasing pressure from the US State Department. In this sense, it was European corporations which were undermining any multilateral effort towards securing better human rights standards in China and enhancing the argument of US corporate lobbies that US failure to capitalise on China's market would simply mean losing out to competitors.²⁵ The economic stakes came into stark relief when the US airline giants McDonnell Douglas and Boeing engaged in a fierce competition with Europe's Airbus for a twenty year contract with China worth US\$66 billion.²⁶ The economic stakes in disengaging from the China market in the form of MFN withdrawal are also underlined by the impact such a move would have on import duties.

A 1996 report by the Congressional Research Service states that the average MFN duty rate on all 1996 imports from China, both dutiable and nondutiable, was 5.5%. The withdrawal of MFN treatment would raise import duties exponentially to 45%. The overall cost of products imported from China and, covered by MFN tariffs, would increase by over one-third and in most individual cases by between 25% and 65%.²⁷ Between 1991 and 1996 US imports from China increased by a massive 171.4% mainly consisting of such goods as toys, plastic

²⁴ R P Cronin, "The United States and Asia in 1994", *Asian Survey*, Vol.35, No.1, 1995, p.113.

²⁵ HW Maull, "Reconciling China with International Order", *The Pacific Review*, Vol.10, No.4, 1997, p.470.

²⁶ L Kaye, "Trading Rights", *Far Eastern Economic Review*, 9 March, 1995.

tableware, sporting goods, apparel, footwear and electronics at the low end of the US market. These goods were estimated to account for some 70% of US imports by 1997.²⁸ In short, the economic evidence clearly demonstrates surging demand for products 'Made in China' and it is these demand side factors which suggest that Chinese exports are part of a structural trend in US consumption patterns.

On May 26, 1994, President Clinton announced that MFN would be renewed despite China's failure to meet human rights standards stipulated in his 1993 Executive Order. A number of sanctions imposed by the Bush Administration under Congressional duress were, however, maintained. These were as follows: (1) the suspension of weapons deliveries under both US government and commercial programmes; (2) the denial of export licences for dual-use civilian technology items for the Chinese police or military; (3) the suspension of consideration of export licences for US Munitions List items; (4) the suspension of participation in the grant programmes for feasibility studies under the Trade and Development Agency and in relation to insurance and loan programmes of the Overseas Private Investment Corporation (OPIC); and (5) the withholding of US support for World Bank and other multilateral development bank lending to China except for projects meeting basic human needs.²⁹ It is worth noting that the latter two sanctions have played a significant role in handicapping the Administration's trade policy and will be discussed in more detail below. The Administration did commit itself to maintaining the high profile of human rights issues, announcing that it would urge the private sector to devise voluntary principles for US business firms operating in China; that it would intensify support for the Chinese transmission of Radio Free Asia and Voice of America

²⁷ Pregelj, *Most Favoured Nation Status of the People's Republic of China*, p.6.

²⁸ US Department of State, Bureau of Public Affairs, 17 June 1997, "The Trade Deficit with China", at <http://www.state.gov/www/regions/eap/fs-trad-def-china-970617.html>.

²⁹ US Department of State, *Dispatch*, Vol.5, No.22, May 30, 1994, pp.346-347.

(VOA); and, finally, that the UN would be pressurised into monitoring China's human rights record more closely. Significantly, an August 9 resolution disapproving of the MFN extension was (defeated by 356-75) setting the scene for the new China policy. Also in August 1994 the Chinese government agreed to acquiesce in human rights talks - which had broken down in March that year. It is no surprise that this softening of policy on the Chinese side dovetailed with Commerce Secretary, Ron Brown's, trade mission in China that same month involving a sizeable trade delegation and which signed nearly \$5 billion in contracts.³⁰

Following the 1994 renewal of MFN the Administration continues to pursue what Winston Lord called a "nuanced" policy meaning a balance between competing concerns.³¹ Perhaps Lord was being more loyal to the State department's vanquished China policy when he urged business leaders to lobby the Chinese government on human rights "as effectively as they are lobbying the Congress and the President."³² The consequence has been that from 1994 onwards then US bilateral trade policies on China have been dominated by the yearly wrangles over renewal but, broadly speaking, no serious threat to the 1994 policy of 'comprehensive engagement' has emerged. The Administration has successfully pressed the case that 170,000 US jobs depend directly on US-China trade, highlighting the fact that US consumers would be hit by higher prices for products such as clothes and shoes should MFN be revoked - costing as much as half a billion dollars per year. Moreover, it is worth noting that, if MFN were indeed withdrawn, it would be very unlikely that human rights groups would be able to maintain their influence within China at all as they are very often part of a broader American

³⁰ Cronin, *The United States and Asia in 1994*, pp. 114-115.

³¹ Lord, cited in R Foot, *The Practice of Power: US-China Relations 1949-1995*, Oxford, Oxford University Press, 1995, p.255.

³² Winston Lord, cited in Bernstein and Dicker, *Human Rights First*, p.47.

presence primarily consisting of members of the US business community.³³ As Laura D'Andrea Tyson argued, in an article which appeared in the *Wall Street Journal*, MFN revocation would "slow the flow of information about western culture, ideas, business practices, and perspectives that accompany foreign investment."³⁴ In short, human rights have been usurped with greater frequency with China closed off from the world and regressive steps on free trade may, over the long term, be likely to lessen China's willingness to cooperate.

At the political level, the Clinton Administration has argued that Congressional revocation of China's MFN status would "slash" Hong Kong's trade by \$20-30 billion, lead to as many as 85,000 job losses, and undermine democratic forces on Hong Kong. The Administration has also made forceful arguments that departing Governor, Chris Patten, and Hong Kong's Democratic Party leader, Martin Lee, both supported China's MFN status.³⁵ US firms now have over 1, 100 offices and 400 regional headquarters in what became, after the handover, a Chinese "Special Administrative Region."³⁶ Most significantly, the MFN debate bears testament to the fact that geo-economic factors have assumed priority in the relationship and, in the last analysis, competing concerns tend to be subordinated to the pursuit of lucrative contracts by US transnationals. As already stressed, MFN has been renewed with relative ease by the Clinton Administration each year since it came to power, again attesting to the structural power of capital over state policy but also to China's increasing ability to defy US

³³ J S Conklin, *Forging an East Asian Foreign Policy*, Lanham, Maryland, University Press of America, 1995, p.46.

³⁴ L D'Andrea Tyson, "Beyond MFN", *Wall Street Journal*, May 28, 1997.

³⁵ US Department of State, Bureau of Public Affairs, "China: Why Continuation of Normal Trade status is in the National Interest of the United States", http://www.state.gov/www/eap/fs_China_why_cont_970617.html, June 17, 1997.

³⁶ W Morrison, "China- US trade Issues", *CRS Issue Brief IB91121*, Congressional Research Service, Library of Congress, Washington D.C., p.1.

human rights demands in the knowledge that there is no shortage of global competitors willing to export to China given any precipitous withdrawal of MFN. However, there are few rivals able to invest in China on the scale of the US or which provide China with such a grandiose export market. In this sense the US economic relationship with China has an extremely broad basis in which questions of market access are crucial. The bilateral trade relationship has, as a consequence, been increasingly characterised by technical negotiations relating to the further liberalisation of the Chinese economy and, most notably, by disputes over the bilateral trade deficit.

The Bilateral Trade Deficit

It is worth going into some detail here about the vexed question of the US-China trade deficit and the way in which the issue has dominated economic relations since Clinton's election victory. Put simply, China has been running extremely large deficits with the US throughout the 1990s and there is more than a kernel of truth in former US Ambassador to China Hummel's observation that "China is trying to export like a capitalist and import like a Communist."³⁷ China has largely followed the Japanese strategy of erecting myriad barriers to foreign trade using such measures as restricting the availability of foreign exchange, using secret rules to manage imports and most emphatically failing to develop a legal infrastructure apposite to globally recognised trade norms.³⁸ China's import tariffs remain among the highest in the world though they fell from 43% in 1992 to 17% by 1998.³⁹ These arguments will be developed further in our discussion of China's accession to the WTO. Here, it is important to

³⁷ Cited in W Overholt, *The Rise of China: How Economic Reform is Creating a Superpower*, New York, WW Norton, 1993, p.381.

³⁸ *Ibid*, p.381.

³⁹ S Breslin, "The Politics of Chinese Trade and the Asian Financial Crisis: Questioning the Wisdom of Export-Led Growth", *Third World Quarterly*, Vol.20, No.6, p.1188.

challenge the fundamental premises and the political motivations of Congressional obsessions with China's trade deficit. The argument which has been taken up by trade negotiators and Congress is worthy of some discussion at this point. China's trade deficit is seen to be unacceptable and has been a major obstacle to China joining the WTO while also giving much impetus to those opposing MFN on economic grounds. While overall trade between the US and China stood at \$42.5 billion in 1993 the bilateral deficit stood at \$17 billion; by 1997 this had risen to \$44 billion - a 15% increase for the second year running."⁴⁰ Many within the Congress and, indeed the Administration, have made great political capital out of the deficit and it has been a major component of the USTR's trading stance with Chinese negotiators. The trade deficit is, however, an integral part of trading with a developing country such as China and was described by one Commerce Department official as "inevitable" and the "consolidation of an existing problem" with Asia as a whole. ⁴¹ Robert Ross has noted that "the cumulative US trade deficit with China, Hong Kong, Taiwan, South Korea, and Japan had not appreciably grown since 1988; only the distribution among the markets had changed."⁴² Little calculation is made of the new international division of labour where re-locating and outsourcing the manufacture of key components for re-assembly overseas, and then re-importing from low-cost labour markets such as China's changes the way manufacturing occurs. Nor has adequate consideration been given to the fact that China has a significantly higher rate of national savings than the US (30-40% domestic household savings rates)⁴³, a manifestly poorer population with less disposable income, and industries producing the low-tech and mass-produced consumer goods which cater to the American market. The

⁴⁰ PT Bangsberg, "Open to US Trade, China Hints at a Pre-Summit Foray", *The Journal of Commerce*, 9 October, 1997.

⁴¹ Interview, US Department of Commerce, October 1997.

⁴² R Ross, "Why Our Hard-liners Are Wrong", *The National Interest*, Fall 1997, p.48.

US, meanwhile, has been exporting high-value added goods still largely unaffordable to most Chinese. Again, the trade deficit was inevitable given the move by the latter economies into high technology sectors and the gradual move away from the manufacture and export of cheap products by economies such as Malaysia's and Singapore's among the Newly Industrialising Countries (NICs). Nicholas Lardy point out that as China's share of world exports of clothing, toys, sporting goods, and footwear rose from 14% in 1984 to 39% in 1994, the share produced by the four Asian tigers fell even more, from 55% to 24%. He also argues that the combined market share for China and the four tiger economies has actually fallen for these goods . In this sense, Lardy sees the argument that the loss of US manufacturing jobs is attributable to an augmenting trade deficit with China as misplaced - China has simply filled the vacuum left by other Asian nations at the labour-intensive end of the regional economy.⁴⁴

Similarly, Bosworth views the MFN debate as somewhat spurious in the way Congress contrives to present China's trade surplus with the US as contributing to economic problems in the US. The significance of Bosworth's argument is that he even questions whether market barriers in countries such as China have the kind of impact on the US economy which is commonly suggested. According to Bosworth, "if the unwillingness of others to accept US exports were a significant problem, the domestic economy would be plagued by unemployment, and the monetary authorities would be seeking to lower domestic interest rates in an effort to stimulate demand."⁴⁵ Bosworth argues that, conversely, the US economy is operating at full capacity, while the Federal Reserve is raising interest rates in an effort to hold

⁴³ J Shinn, "Economic Engagement" in Shinn (ed), *Weaving the Net*, p.36.

⁴⁴ N Lardy, "Accommodating to China as an Economic Giant", in SS Harrison and C Prestowitz Jr (eds), *Asia After the 'Miracle': Redefining US Economic and Security Priorities*, Washington DC, The Economic Strategy Unit, 1998, p.188.

⁴⁵ B Bosworth, "Why Trade with Asia Benefits the US Economy" in Harrison and Prestowitz (eds), *Asia After the Miracle*, p.105.

down demand pressures and curb inflation. Moreover, US export performance has, for a number of years, outperformed the US economy as a whole. Bosworth concludes that "the United States simply does not fit the profile of an economy plagued with insufficient demand for its products; instead it runs trade deficits because of a persistent desire to spend more than it earns."⁴⁶ Bosworth's arguments perhaps underplay the extent of China's domestic barriers but offer a valuable corrective to the political arguments concerning MFN and the nature of the trade deficit. The real source of the US trade deficit with China is, as noted above, US levels of domestic consumption which outstrip those of any other country. As mentioned, this is compounded by low rates of national savings. In short, a deeper look at the US trade deficit with China must focus upon structural economic trends and differences in economic behaviour among national consumers as well as the key differences in the way trade is calculated. The latter point is particularly pertinent as it relates to the role of Hong Kong as a third country in US-China trade.

The Role of Hong Kong

Another salient feature relating to the structure of the US-China trade deficit is the fact that Hong Kong, in the post-1997 period, continues to maintain the status of a sovereign economic territory for trade purposes. Hong Kong is America's 13th largest trading partner with over 1,000 US companies operating there and \$15 billion in US investments located there as of 1997.⁴⁷ Exports to Hong Kong, much of which is re-exported to China, totalled over \$14 billion. All of this tends to be omitted from calculations relating to the overall trade deficit and thereby distorts the political picture. Nicholas Lardy points out that China is the only country

⁴⁶ *Ibid.*, pp.105-6.

⁴⁷ M I Abramowitz, *China: Can We Have a Policy*, Washington D.C., Carnegie Endowment for International Peace, 1997, p.9.

currently maintaining a trade deficit with the US that does not also have a global trade surplus. Lardy also points out that Japan has a global trade surplus of \$120 billion and that China, unlike Japan, has not adopted systematic macro-economic and exchange-rate policies designed to prolong a global current account surplus. In this sense, "China is already more open than Japan."⁴⁸ Lardy has also elaborated on the complexity of the US-China trade deficit and offers an analysis which serves as a counterweight to those who simply argue that China has been flooding the US with imports. Firstly, the trade deficit is hardly something new in that China has been running significant deficits with the US since 1983. He argues that the main problem arises from the fact that US figures accumulated by the Commerce Department and widely utilised by Congress during debates over MFN tend, as briefly mentioned above, to negate the role of Hong Kong. By the early 1990s over two-fifths of all Chinese exports were first sold to Hong Kong and then re-distributed for sale to the United States and several European countries. In compiling figures pertinent to the overall trade deficit both China and the US record the country of origin relating to goods entering the country. It is for this reason, argues Lardy, that in 1990 both China and the United States claimed to be running bilateral trade deficits with one another- the US claiming a \$10.4 billion deficit with China and the Chinese claiming a reverse deficit of \$1.7 billion.⁴⁹ The differential in Chinese and US perceptions of the trade deficit, then, is primarily attributable to the far greater role Hong Kong plays in the export of Chinese goods to the US than the export of US goods to China. Lardy stresses the differences in commodity composition as a factor here. Most US exports are sophisticated products such as aircraft and are thus sold directly to Chinese companies without the participation of Hong Kong firms as intermediaries. Conversely, low-end of the market goods such as garments, footwear and toys manufactured in China, very often pass through Hong

⁴⁸ Lardy, *Accommodating to China*, p.187.

Kong for re-export to the US - even though the Chinese authorities, utilising the country of destination principle, label such exports as having been sold to Hong Kong.⁵⁰ Using adjusted figures, obtained from Hong Kong sources, Lardy has demonstrated the extent to which official US trade figures relating to the bilateral trade deficit are askew. In 1993, for example, the adjusted US trade deficit ran at \$12.5 billion while the Administration's trade deficit, as estimated by the Commerce Department, was running at \$16.7 billion. In short, the Commerce department figures overestimated the bilateral trade deficit with China by as much as one-third.⁵¹ It is these figures which have been adopted by the US-China Business Council in their argument against the revocation of MFN on behalf of US businesses and which, perhaps ironically, put them at odds with the Administration. For its part, the Clinton Administration adopted the contradictory strategy of arguing for MFN renewal yet endorsing a combative trade strategy based on questionable economic data which plays into the hands of its ideological and protectionist adversaries in Congress.⁵²

A second factor to be taken into account when assessing the bilateral US-China trade deficit is, according to Lardy, the role played by internationally mobile capital. According to Lardy the movement of labour-intensive manufacturing production to China has two fundamental implications for any analysis of the bilateral trade deficit. While the US trade deficit with China may have been expanding the US deficit with Taiwan and Hong Kong (the other territories of Greater China) declined by around \$13 billion between 1987 and 1992. Over the same period the US deficit in trade with mainland China grew by some \$15.5 billion. By 1992 Greater China accounted for some 30% of America's global deficit of around \$96 billion. In essence,

⁴⁹ Lardy, *China and the World Economy*, pp. 74-75.

⁵⁰ *Ibid.*, p.75.

⁵¹ *Ibid.*, p.77.

this reflected structural changes in the balance of the Asian regional economy and, indeed, wider trends towards the globalisation of production. In relation to arguments about the bilateral trade deficit the main point to be extrapolated is that the deficit had more to do with the growth of labour-intensive manufacturing in China than with Chinese import restrictions as claimed by the US government. As Lardy avers, a more important cause may well be the liberalisation of China's foreign investment regime (discussed below) which induced a huge volume of FDI from Hong Kong and Taiwan.⁵³ Another factor is that a significantly high proportion of profits resulting from Chinese exports actually falls into the hands of foreign firms. Moreover, a high proportion of Chinese exports contains foreign components, most of which are supplied by Hong Kong but which originate in the advanced industrial countries. Thus China's processed exports have an import content of around 77%, thereby undermining the assumption that they are, in anything but the 'Made in China' label which adorns them, Chinese products at all.⁵⁴

Recent research by Breslin also puts the question of the US-China trade deficit into a broader perspective which ties in with both regional and global economic factors. Again, Breslin has shown the extent of disparities in the way statistics are compiled in both the US and China. In 1998, for example, US government sources estimated the deficit to be somewhere in the region of \$57 billion, while Chinese data put the deficit at \$21 billion. Again, Chinese sources claimed that around 60% of exports to the USA pass through Hong Kong en route. Crucially, goods leaving China receive an extra 40.7% value-added in the third country, while, in the case of toys and textiles, the value added can be more than 100% - this according to Breslin's use of Chinese statistics. Again, the practice of the US authorities of counting exports in Hong

⁵² Interview, US-China Business Council, Washington DC, November, 1997.

⁵³ Lardy, *China in the World Economy*, p.78.

Kong as purely Chinese in origin “misses the huge value-added that occurs once the goods leave China.”⁵⁵ Breslin goes on to explain the surge in Chinese exports during the mid-1990s (an increase of 60% between 1993 and 1995 - a figure which doubled between 1995-97) as emanating from two significant factors. Firstly, a massive increase in FDI into China took place in 1993, and secondly China restructured its foreign exchange rate system in 1994.⁵⁶ The first point relates directly to the way in which foreign companies operate in China. Let us go into some detail here about the nature, extent and implications of FDI in China before returning to Breslin’s second point and looking at the implications of China's restructured exchange rate.

FDI

The following is drawn from research by Tsao and Whisler of the US International Trade Commission. Tsao and Whisler put total FDI in China in 1993 at \$108.4 billion which was almost as much as the cumulative amount of investment accrued during the period 1979-1992. US contracted investment in China totalled \$14.4 billion during 1979-1993 with the value of contracts signed in 1992 alone accounting for some 21.6% of this total while the value of US contracts signed in 1993 amounted to some 44.3% of the total value. Meanwhile, US utilised investment in China (the amount which is actually made good in terms of capital inflow) amounted to \$2.1 billion in 1993 - 40.2% of the funds contributed to China over the period 1979-1993.⁵⁷ The surge in FDI in China can best be explained as a consequence of Deng Xiaoping’s much publicised tour of China’s south-eastern coastal regions in 1992. Deng was

⁵⁴ *Ibid.*, p.78.

⁵⁵ Breslin, “The Politics of Chinese Trade”, p.1181.

⁵⁶ *Ibid.*, p.1182.

⁵⁷ J Tsao and J Whisler, *China Briefing Paper*, Office of Economic, US International Trade Commission, Washington D.C., 1995, p.39.

sufficiently impressed by the prosperity created by FDI in these regions that he ordered a new phase in the opening of China's market to the world economy. This primarily involved opening previously closed regions to FDI and lifting a range of restrictions in key economic sectors. Moreover, a number of investment incentives were announced.⁵⁸ A key element to this policy of creating new development zones was that they were extended to inland provinces previously ostracised from the global economy and foreign investment. Susan Shirk notes that during the first nine months of 1992 as many as 2,000 development zones were set up under the direction of then economic chief Li Peng. Most important was the resultant increase of foreign capital which found its way to the inland provinces - the inland provinces increasing their share from 7% to 10% in 1992 alone.⁵⁹ As Shirk further notes, a large proportion of investment in the Chinese interior came from South Korean and Japanese investors "broadening the geography of support for the open policy."⁶⁰ What is significant here is that intra-Asian investment was gravitating towards inland areas of China in need of long-term investment and unlikely to yield quick profits. This type of investment can be seen, then, as infrastructural investment committed to China's development overall. Conversely, US investment as well as that of Europe has tended to focus on the coastal regions where investment is more short-term and return on invested capital is expected to occur far more quickly. This elucidates some of the differences between Asian capitalism of the Japanese variety and the neo-liberal policies being encouraged in China's coastal regions by both Chinese and certain sectors of US business. As Tsao and Whisler demonstrate in their research for the US International Trade Commission, these new levels of FDI again complicate the supposedly 'Chinese' character of Chinese exports and, indeed, Chinese GDP. For instance

⁵⁸ *Ibid.*, p.39.

⁵⁹ S Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, Washington D.C., The Brookings Institution, 1994, p.41.

there is an intimate linkage between the expansion of foreign-funded firms and the growth of Chinese exports as a whole. For instance, foreign-funded firms' industrial output rose by 48.8% in 1992 and 46.2% in 1993 and China's total industrial output increased by 20.8% and 21.1 % during these respective years. This is brought into even clearer relief when we consider the fact that, by 1993, the exports of foreign-funded enterprises increased by 45.4% to \$25.2 billion accounting for a staggering 27.5% of China's total exports.

A similar story is true for the role of foreign-funded firms in the volume and composition of Chinese imports. In 1993, for example, the activities of foreign-funded enterprises were responsible for China's first deficit in merchandise trade since 1989. The imports in question resulted from the contracts forged with foreign investors as part of their equity stakes in Chinese projects and involved the importation of materials and semi-finished goods to be processed for export. The materials and equipment imported as part of equity contracts amounted to some \$17 billion in 1993, while the import of those semi-finished goods reprocessed for export amounted to \$25 billion. In short, the activities of foreign funded firms accounted for more than 40% of China's total imports in 1993 and "grew more than twice as fast as its imports overall."⁶¹ These statistics reinforce Breslin's point that "to understand the politics of export-growth, it is essential to distinguish between 'domestic' Chinese exports, and foreign-funded Chinese exports."⁶² The surge in FDI into China in 1993 represents then a pivotal structural change in the nature of China's development, but also irrevocably alters the way in which the bilateral trade deficit between the US and China should be perceived. Not only is the line between imports and exports blurred by global production chains (in that imported components are used in what subsequently counts as a Chinese export) but the

⁶⁰ *Ibid.*, p.42.

⁶¹ Tsao and Whisler. *China Briefing Paper*, pp.39-41.

significance of a state-centric approach to trade statistics is fatally undermined. Again, the US propensity to count imports depending on the last country in the production chain completely negates the phenomenon of FDI and transnational webs of production. As again Breslin notes, “the final stage in the production chain is usually labour intensive component assembly and/or finishing semi-finished produce - in other words, areas with low value added.”⁶³ It is also the case that many of the components which foreign investors source originate from other production sites within Asia. Only then are they sold on by China as finished goods to western markets. Again, it is in this sense that the deficit is part of an overall structural problem with Asia as a whole and which explains why China has a huge trade surplus with the United States while running significant deficits with manufacturers of components such as South Korea and Taiwan.⁶⁴

It is worth going into some detail at this juncture about the most prominent types of US FDI in China at the present time. Tsao and Whisler have shown that US companies have tended to prefer equity joint ventures in China as opposed to contractual joint ventures and wholly foreign-owned enterprises. Between 1979 and 1992 around 60% of US investment in China took the form of equity joint ventures, while contractual joint ventures accounted for 22% of investment and wholly foreign-owned enterprises for 18% of total investment. By 1992 equity joint ventures accounted for 71% of US investment, while the share represented by wholly-owned foreign enterprises had increased to 23%.⁶⁵ Equity joint ventures comprise a mixture of manufacturing, assembly, and processing enterprises which include products such as automobiles, computers, food and beverages. However, and this is significant, US

⁶² Breslin, “The Politics of Chinese Trade”, p.1187.

⁶³ *Ibid.*, p.1192.

⁶⁴ *Ibid.*, p.1190.

manufacturing investment has tended to hone in on high-technology products, speciality chemicals, construction materials, and medical supplies. Among the top ten joint equity venture investments were Beijing Jeep Corp funded by Chrysler at number two and Gold Cup Jinbei Vehicle Company at number three and funded by General Motors as well as a Bermudan registered company.⁶⁶ As stated, US investment, along with the investment of Japan, is particularly important in terms of China's long-term technological development. Though western investors at the low end of the market are often crowded out by waves of overseas Chinese investment, this investment tends to be in smaller low-technology sectors.⁶⁷ As Breslin points out, it was the "desire to encourage such technology imports that was one of the main reasons that the Chinese authorities encouraged such investment in the first place."⁶⁸

It is worthy of note that the Chinese government has proven more than adept at securing FDI in high-technology sectors on its own terms. Due to the fact that China maintains tariffs that range from 30% and run as high as 100% on automobiles, foreign companies are often left with no choice but to construct factories in China in order to guarantee market access for their products. As Chang-Bloch notes, a tactic here has been to play companies off against one another. In 1995, General Motors competed with Mercedes Benz to see which company would give China the most technology in return for the right to manufacture and sell cars in the China market - in the end both companies "committed sophisticated technology to design and build new models."⁶⁹ Moreover, investors have been given significant tax exemptions on high-tech imports which, in the eyes of the Chinese government, are likely to strengthen

⁶⁵ Tsao and Whisler, *China Briefing Paper*, p.43.

⁶⁶ *Ibid.*, pp.44-45.

⁶⁷ *Ibid.*, p.54.

⁶⁸ Breslin, "The Politics of Chinese Trade", p.1189.

⁶⁹ Chang-Bloch, "Commercial Diplomacy" in Vogel (ed), *Living with China*, p.200.

China's technological base.⁷⁰ A significant factor in the race to capture the market for large-scale infrastructural investment in China seems to have been Japan's quite different approach from that of the US. Japan's Overseas Economic Cooperation Fund (OECF) is now the largest foreign lender to China providing it with more funds than either the World Bank or the Asian Development Bank. Moreover, Japanese loans take the form of concessionary credits repayable over a thirty year period. Since 1979 such loans, which have financed transportation projects, telecommunications and electric power, have amounted to \$10 billion. This form of long-term investment reflects what Ronald Dore has characterised as the Japanese willingness to "foreclose their options by making long-term commitments from which, they accept, they can only disengage themselves with great difficulty."⁷¹ This approach stands in marked contrast to most forms of US FDI which are more often reliant upon investors seeking quick returns and are more susceptible to financial speculation. In this sense, the race to supply China with high-tech products may favour Japan in that it is more congruent with long-term social and economic prosperity and less vulnerable to financial shocks and capital flight. A last feature of US foreign investment in China has been the opening of new sectors of the economy to FDI. This has particularly benefited US firms which lead the world in the provision of services. The service industries opened to FDI in 1992 have included banking, insurance, accounting, tourism, and retailing. In 1992 the American International Group (AIG), the world's largest insurance group, was given a licence to sell insurance products in Shanghai, while Sino-American joint ventures in retailing have been given the right to import directly the commodities they sell.⁷² In retailing China's Ministry of Internal Trade announced

⁷⁰ *Ibid.*, p.1189.

⁷¹ R Dore, "The Distinctiveness of Japan" in C Crouch and W Streeck (eds), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, London, Sage, 1998, p.28.

⁷² Tsao and Whisler, *China Briefing Paper*, p.57.

in late 1996 a plan to open all provincial capitals to joint venture department stores which would be accorded full trading rights.⁷³

In sum, the 1993 increase in FDI flowing into China has directly contributed to the growth of America's trade deficit with the PRC primarily because China has become the final port of entry for manufacturing firms seeking to cut labour costs in a regional and global network of production. The role of foreign investors and foreign firms in producing China's exports is significant enough to undermine the concept of a simple bilateral trade deficit between two national governments. It is also worth noting that brand names may tell us more about the extent to which US influence lies behind Chinese imports than the simple composition of goods.

The second reason, outlined by Breslin, why Chinese exports have surged since 1993 is due to China's restructuring of its exchange rate system in 1994 which greatly enhanced the global competitiveness of Chinese products and, as we will discuss later in this chapter, played a prominent role in the cycle of events which culminated in the Asian financial crisis of 1997-98. Moreover, and relevant to the immediate discussion, China's restructuring of its exchange rate is a key structural reason for the continued proliferation for America's trade deficit.

China's Exchange Rate Reform: Implications for US Policy

China's decision to reform its exchange rate in 1994 contains an overriding irony in that strong US pressure for such reforms was followed by denunciation of the resultant increases in the bilateral deficit. Moreover, the growth in the bilateral deficit flowing from exchange rate

⁷³ US Department of State, 1996 Country Reports: "On Economic Policy and Trade Practices: People's

reform merely reflected China's new structural role in the Asian regional economy. A 1993 US Department of the Treasury Report concluded that China was manipulating its exchange rate and contravening the 1988 US Trade Act. Under the auspices of the act the US Department of the Treasury is obliged to make annual assessments as to whether US trading partners are manipulating their exchange rates in order to obstruct realistic balance of payments adjustment or to gain an unfair competitive advantage in international trade.⁷⁴ On 25 May 1993 Under Secretary for International Affairs, Lawrence Summers, informed a Senate Subcommittee on International Finance and Monetary Policy that China's long-term manipulation of its exchange rate and its currency reserves was indeed having an adverse impact upon US exports to China thereby worsening the trade deficit. The US Treasury was particularly critical of China's multiple exchange rate system whereby official rates controlled by the government, market (or swap) rates, and black market rates ran alongside one another creating a three tier financial system viewed as inimical to China's full participation in GATT or the WTO. Following a great deal of pressure from the IMF, the US government and foreign investors (as well as Chinese provinces and exporting enterprises), the Chinese government decided to unify the swap market rate and the official rate at the lower swap market rate of 8.7 *Yuan* to the dollar on January 1, 1994. The unification of rates represented a 50% devaluation of the *Yuan* with far reaching consequences for the regional economy. Convertibility, however, was limited to trading activities and a great deal of administrative control remained in place, while the swap market (where foreign funded companies buy and sell exchange) continued to exist due to a lack of confidence among foreign investors in China's opaque banking system.⁷⁵

Republic of China", http://www.state.gov/www/issues/economic/trade_reports/eastasia96/china96.html.

⁷⁴ Lardy, *China in the World Economy*, p.86.

⁷⁵ Shirk, *How China Opened Its Door*, pp.66-67.

While marking a significant liberalising measure and a further opening to international markets there still remained a number of controls over the domestic Chinese market and even stricter controls over the capital account. Before considering US Treasury criticisms of China's large accumulation of foreign exchange reserves and China's new round of currency liberalisation in 1996, it is worth taking on board some key criticisms of the US Treasury view of the Chinese government's role in currency manipulation. Nicholas Lardy does not dispute that the Chinese government has long fixed the official exchange rate and has intervened to manipulate the swap market rate. However, most interventions in the swap market have been made to prevent a depreciation in its value. Moreover, the unification of the two rates in 1994 at the higher swap market rate illustrated the fact that the official exchange rate had significantly overvalued the Chinese currency and, as a result, imposed higher costs on Chinese exporters while subsidising Chinese imports. In short, "the interventions and manipulation would likely have the opposite effect of that postulated by the US Department of the Treasury."⁷⁶ The Chinese government has sought to balance foreign investment with foreign exchange reserves held by the Central Bank, the People's Bank of China. This has been done primarily so that any expedient capital outflow following full convertibility can be offset by usage of the estimated \$100 billion in foreign exchange reserves and to cover any surge in imports. These reserves have been acquired due to the legally binding obligation of Chinese enterprises to sell their foreign exchange earnings to Chinese banks. In the view of the US Treasury this leads to an artificially high level of reserves. This money, according to the Treasury, would be better used to finance Chinese imports and thus has a detrimental effect on US exports.

Nicholas Lardy also contests the US Treasury view on the grounds that it negates the "heterogeneity of what is referred to as China's international reserves." In short, the

⁷⁶ Lardy, *China in the World Economy*, p.86.

government has control over foreign exchange reserves held by the Central Bank, yet, by 1992, less than half of these reserves were actually held by the Bank.⁷⁷ Lardy shows that even though the government curtailed its foreign reserve holdings in 1992 exporters and individual holders of foreign exchange held on to their holdings and moved large amounts off shore for fear of a Chinese government move to full convertibility and a subsequent depreciation in the value of the currency.⁷⁸ The Chinese government intervened mainly to shore up the value of the Chinese currency by selling officially held dollars despite the fact that this affected Chinese export-trade in a negative way over the short-term. The crucial point here is that long-term stability and assuring investor confidence overrode the short-term gain of allowing the currency to continue its downward trajectory.

Also in 1993 the Chinese leadership pledged itself to what the World Bank described as "China's first real attempt at formulating a clear, coherent, and comprehensive blueprint for making the transition to a full market economy."⁷⁹ The reforms announced in February 1993 included those mentioned above, but also the decision to float the exchange rate in 1996. On 1 December 1996 the *renminbi* became fully convertible for all current account transactions with a UN report estimating that the reforms were likely to sustain capital inflows of over \$42 billion that year.⁸⁰ Again, this would indirectly enhance China's export position in relation to the US. This was accompanied by the granting of trading rights to foreign companies and, for the first time, equal status and rights of legal redress in Chinese law - measures which

⁷⁷ *Ibid.*, p.88.

⁷⁸ *Ibid.*, pp.89-90.

⁷⁹ World Bank, *Trends in Developing Economies: 1996*, Washington D.C., 1996, p.107.

⁸⁰ United Nations, *World Economic and Social Survey: 1997: Trends and Policies in the World Economy*, New York, 1997, p.38.

enhanced the macro-economic conditions for renewed levels of FDI.⁸¹ That said, China still does not possess a foreign exchange market where foreign exchange dealers can interact directly with international markets and the Chinese government continues to control interest rates on a non-market basis. More importantly, China continues to maintain controls over its capital account in the belief that any prospect of significant capital outflows would be ruinous to the overall reform strategy. In sum, we can see that China's reform of its currency has been advantageous to Chinese exports overall in that it has encouraged increased FDI but not always in the way expected. The devaluation of the currency in 1994 was largely a result of pressure for a unified currency by the IMF and the US Treasury. It should not be seen as a unilateral attempt at a competitive devaluation. As stressed above, Chinese interventions with regard to its currency can be seen as part of an overall attempt to secure long-term economic stability rather than a simple strategy of expanding its trade surplus with the US. As Lardy has shown, if this had been the strategy then the Chinese government would hardly have propped up the swap market exchange rate at the cost of hurting Chinese exports. It would seem that China's exchange rate reforms again highlight the contradictory nature of US economic strategy. On the one hand the US urges Chinese reforms along neo-liberal lines, and on the other, the consequences of such reforms - increased FDI in China and growing export-levels -, are politically equated with China's import barriers which, though significant, are not the root structural cause of the US-China trade disparities.

The US and China's Disputed Entry to the World Trade Organisation

This section of the chapter discusses China's entry to the World Trade Organisation and the protracted nature of bilateral and multilateral negotiations. China's accession is seen as both

⁸¹ *Ibid.*, p.39.

central to cementing a working bilateral trading and, more importantly, as tying China to a set of rules and norms which have broader repercussions for the future of world trade - especially labour and human rights standards. Gerald Segal has dubbed this approach 'positive conditionality' where "China can be told that its continuing access to the benefits of the WTO depend on meeting WTO rules, however these are phased in."⁸² Bringing China within an interdependent world-economy also serves to promote a more stable world order and, from a US perspective, would undoubtedly be key to shaping the underlying political economy of the twenty-first century.⁸³ In large part, it is the United States which controls the agenda as to whether or not China enters and on what terms. Segal was undoubtedly correct when he asserted that "because China is likely to be a long-term importer of high technology from the developed world, the West will have major leverage over what China does with its own technology exports."⁸⁴ The US decision to accede to China's entry at the time of writing, November 1999, bears testament to this view in that China has agreed significant further liberalisation of its market.

The Chinese government has been attempting to join the GATT since 1986, but its application was held up because of the Tiananmen Square massacre in 1989 and due to the protracted nature of the Uruguay Round of trade negotiations finalised in 1993. The multilateral GATT working group reconvened its work in 1992, undertaking a fresh assessment of China's economic reforms in relation to GATT rules for entry. At this stage negotiations entered the phase of addressing outstanding bilateral disputes between individual WTO member countries and China in the hope of reaching mutually acceptable protocols for accession. For the US

⁸² See G Segal, "Tying China into the International System", *Survival*, Vol.37, No.2, 1995, p.71.

⁸³ Y Funabashi, M Oksenberg, and H Weiss, *An Emerging China in a World of Interdependence*, New York, Trilateral Commission, 1994.

⁸⁴ Segal, "Tying China into the International System", p.71.

there remained a number of disagreements precluding support for China's entry. These included disputes involving the trade deficit (discussed above), intellectual property rights (IPRs), prison labour, textile transshipments, trade barriers and generic questions of market access. Overall, however, it has been China's continued insistence on protecting key infant industries that has been seen as flouting the WTO's commitment to free trade and liberalisation.

In May 1993 the Chinese government took the fundamental decision to continue, allowing the State Office for Import and Export of Machinery and Electronic Imports (SOEMEA) to use its discretion in determining when policies of import-substitution were needed and to recommend them if necessary. A report by the SOEMEA in 1993 stated that those machines and electronic imports "which, if...excessive, can seriously jeopardise the development of the relevant industries in the PRC or can directly affect the adjustment of the industrial structure and product mix will be subject to import quota control according to international practice."⁸⁵

This type of protectionism raises the central question in the dispute over China's accession to the WTO. It is commonly accepted that most countries involved in a project of national development deploy limited forms of protection while creating a viable industrial and technological infrastructure. For instance, the South Korean government used protectionist measures in the early 1980s to safeguard its indigenous electronics industry⁸⁶, while Japan deployed a host of protectionist measures during the Cold War which were tolerated due to US strategic interests. Moreover, rates of protection must be related to stages of development as well as the specificity of a national and historical context. As Hobson notes, the United States, during its initial phase of industrial development, "levied the highest tariff rates in the

⁸⁵ Shirk, *How China Opened its Door*, p.70.

⁸⁶ J Henderson, *The Globalisation of High-Technology Production*, London, Routledge, 1989, p.66.

world, bar Russia.”⁸⁷ It is against this backdrop that the Chinese government has designated itself a developing country deserving of special treatment in respect of its entry to the WTO. The justification for this position is also based on Chinese government arguments that it should be judged on its low per capita income of only \$780 per annum compared to \$38,000 in Japan.⁸⁸ The Office of the United States Trade Representative (USTR) argues that developing status only applies to nations that need special treatment to help them succeed in international trade. In the US view, as articulated by one USTR China trade negotiator, “it does not matter if China is rich or poor, it only matters if China is competitive.”⁸⁹ This highlights the enormous complexity of China’s uneven development in that the coastal provinces tend to produce growth levels which are then taken to represent China as a whole. As Hirst and Thomson note, “China has a dual economy, part rapidly modernising Asian NIC, part semi-stagnant state socialist system, and with every variant of rural economy from prosperous capitalist farms to grinding peasant poverty.”⁹⁰ In short, China is both a developed and developing country, while “the sheer size of the country exaggerates China’s real wealth obfuscating the fact that certain parts of the country are still riddled by astonishing levels of poverty and death from hunger.”⁹¹

Funabashi *et al* have identified two basic approaches to China’s entry to the WTO which are as follows:

⁸⁷ JM Hobson, *The Wealth of States: A Comparative Sociology of International Economic and Political Change*, Cambridge, Cambridge University Press, 1997, p.150.

⁸⁸ W Pfaff, “Obstacles to China’s Development are Too Often Neglected”, *International Herald Tribune*, 18 September, 1997.

⁸⁹ Interview, Office of the United States Trade Representative, 13 November, 1997.

⁹⁰ P Hirst and G Thomson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996, p.108.

⁹¹ S Breslin, “Whither China? The Limits of Economic Reform”, *New Political Economy*, Vol.3, No.3, 1998, p.439.

That China is allowed to enter on comparatively easy terms and that WTO members are permitted to use normally illegal safeguards against potential market disruptions carried out by China.

That China, as part of its accession agreement, commits to “a firm phased- in programme to achieve full WTO standards within a fixed period.”⁹²

Perkins elaborates on these two points at greater length, arguing in favour of granting China a ‘modified’ form of developing country status. For Perkins, “insisting on developed country rules within a short time frame is tantamount to vetoing China’s entry.”⁹³ He further argues that China should be allowed to carry out a limited industrial policy applied to automobiles and electronics “until its per capita income rises significantly above mid-1990s levels.” This approach allows “China to live within the rules of the world trading system, but will give China ample room to carry out its economic development programmes.”⁹⁴ It is worthy of note here that European Union also has serious reservations about China’s entry to the WTO. Nearly a quarter of all EU anti-dumping duties from 1988-95 were targeted towards China and in 1997 China was subject to sixty-nine anti-dumping investigations relating to 20% of Chinese exports to the EU. Moreover, the European Commission has reserved the right to enforce quantitative restrictions on Chinese imports even after its entry to the WTO.⁹⁵ Thus objections to China’s entry are not solely American even if it is the case that the WTO largely reflects neo-liberal norms emanating from US economic practices. It is noteworthy that government level discussions between the US and China on this issue, in April 1999, broke

⁹² Funabashi et al, *An Emerging China in a World of Interdependence*, p.43.

⁹³ D Perkins, “How China’s Economic Transformation Shapes its Future”, in Vogel (ed), *Living with China*, p.162.

⁹⁴ *Ibid.*, p.162.

⁹⁵ Maull, *Reconciling China with International Order*, pp.473-474.

down due to a failure on the part of both sides to agree on the implementation of WTO rules, on a timetable for provisions governing dumping and product safeguards, and on rules regulating the textile trade.⁹⁶

This breakdown in WTO negotiation was exacerbated by political tensions following the NATO bombing of the Chinese embassy during the crisis in Kosovo in April 1999. It was, therefore, highly surprising when the two sides agreed upon conditions for China's entry to the WTO on November 15, 1999. The WTO agreement, still subject to China reaching bilateral agreements with Canada and the European Union, is subject to a six year phase-in period but opens up the Chinese market to the global market in a comprehensive manner. The agreement cuts duties on a wide range of products, gives foreigners the right to distribute their goods within China, and allows foreign auto-makers to provide car financing while also increasing imports of foreign films.⁹⁷ Most significantly, tariffs on imports will be brought down to between 14.5% and 15% while new sectors of the economy, such as banking, insurance, the internet, telecoms, and electronics will be opened up to the world precipitating a new phase in China's economic development which will hugely benefit the US as global leader in these sectors.⁹⁸ Significantly, Congress will be pressured by the Clinton Administration to pass a Permanent Normal Trade Relations Act in May 2000 lifting restrictions on US exports to China.⁹⁹

⁹⁶ White House Press Release, Joint US-China Statement: Status of Negotiations on China's Accession to the World Trade Organisation, April 8, 1999, http://www.state.gov/www/regions/eap/990408_us-chinaitstmt.html.

⁹⁷ SV Lawrence and L Holland, "Deal of the Century", *The Far Eastern Economic Review*, November 25, 1999.

⁹⁸ *Ibid.*

⁹⁹ The White House, China Trade Relations Working Group, "Commerce Secretary Daley Releases State Export Opportunity Reports Highlighting Benefits of Expanded Trade with China", at <http://www.chinapntr.gov/press%20releases/daley/press0412.htm>.

Up until November 1999, negotiations between the US and China had never really become fully multilateral in that the key disputes continued to revolve around outstanding bilateral issues which the US had insisted on resolving prior to approving China's WTO membership. The five fundamental bilateral conditions stipulated by US negotiators at the outset of the Clinton Administration were as follows: (i) a single national trade policy common to all provinces and regions of the country; (ii) full transparency of trade regulations; (iii) continuing gradual removal of non-tariff barriers; (iv) a commitment to a full market economy; (v) the acceptance of a safeguard system to protect GATT/WTO members from possible surges in Chinese exports until the transition to a market economy is complete.¹⁰⁰ China's entry to the WTO has been viewed as a way of taking US-China trade relations out of the quagmire of domestic US politics and the annual debate over MFN and also giving China's reformers a strengthened position from which to promote trade liberalisation.¹⁰¹ There has been a suggestion that the US applies Article XIII of the WTO to China allowing US negotiators to continue applying MFN conditions (which they are bound to do by law) despite China's WTO entry while the possibility that the US is shut out of final WTO negotiations on China has also been mooted by other members which accord China full MFN status in bilateral relations.¹⁰² This is, however, very unlikely to come about given the US's dominant position in the global economy. Let us now turn to some of the bilateral disputes which have dominated negotiations and involve general questions of market access as well as key sectoral disputes.

Market Access

¹⁰⁰ Tsao and Whisler, *China Briefing Paper*, p.85.

¹⁰¹ S Harris, "China's Role in the WTO and APEC" in DSG Goodman and G Segal (eds), *China Rising: Nationalism and Interdependence*, London, Routledge, 1997, p.138.

¹⁰² *Ibid.*, p.147.

On 10 October, 1992, one month prior to Bill Clinton's election victory, the US and China signed a Memorandum of Understanding (MOU) in which China's leaders pledged themselves to open China's markets to US imports and, more pertinently, to undertake a series of structural reforms of the Chinese economy congruent with GATT. These reforms were to take place in the four areas stipulated by a USTR investigation which had taken place one year earlier under Section 301 of the 1974 Trade Act. The reforms to be implemented were as follows: an end to import prohibitions and quantitative restrictions; an end to restrictive import licensing requirements; an end to technical barriers to trade, including standards, testing, and certification requirements without a scientific basis, especially in the agricultural area; and an end to unpublished or unclear laws, regulations, judicial decisions, and administrative rulings governing China's imports.¹⁰³ Thus China's leaders committed themselves to the fairly rapid and time-tabled phasing out of market barriers on specific products beginning on 31 December 1992 and continuing, on a yearly basis, until 31 December 1997.¹⁰⁴ Importantly, around 75% of the import restrictions specified above required elimination within a two year time frame. Unsurprisingly, China's leadership have found it all but impossible to meet the aforementioned criteria in their entirety, given both the exigencies of domestic Chinese politics - where rudimentary compliance with US demands is often frowned upon - and the need to maintain import-substitution developmental policies in order to safeguard pivotal infant industries, such as autos, from the vagaries of the global market. Accordingly, during 1993 the Office of the USTR, under Mickey Kantor, continued to protest against China's ongoing enunciation of regulations and directives such as those requiring the registration of electronic and machinery

¹⁰³ Tsao and Whisler, *China Briefing Paper*, p.85.

¹⁰⁴ *Ibid.*, p.78.

products or those relating to the import of medical equipment - all of which were adjudged to contravene the MOU as well as WTO principles.¹⁰⁵

Despite such shortcomings in Chinese compliance with US stipulations, it is, nevertheless, quite clear that Chinese officials were taking the demands seriously. On 31 December, 1993, in line with the requirements of the MOU timetable, China eliminated 258 import restrictions on industrial imports such as iron and steel products, heavy machinery, machine tools, textile machinery, rail locomotives, helicopters, scientific instruments, and commercial aircraft. Also in 1993, and significantly in advance of the agreed timetable, China lifted non-tariff barriers on integrated circuits and selected chemical products whilst also removing a regime of administrative controls safeguarding the domestic manufacture of 171 machinery and electronic products.¹⁰⁶ By 1997 China had eliminated some 1,000 quotas and licensing requirements on high-tech US imports leading to a rise of almost 200% (\$640 million in 1996) in US exports of telecommunications equipment.¹⁰⁷ The result of this was that by 1996 US exports to China had grown at a rate of 61.4%, compared to a growth of only 39.4% with the rest of the world. Also in 1996 China had spent some \$1.7 billion purchasing US civilian aircraft. Overall, between 1992 and 1997, US exports to China have doubled and, in 1996, stood at around \$12 billion.¹⁰⁸

In December 1994 the USTR estimated that China had failed to remove non-tariff barriers on some 155 products stipulated by the MOU. As outlined above, China's recalcitrance in certain product areas was retaliation against continued obstruction by the US of GATT membership,

¹⁰⁵ Office of the United States Trade Representative, *People's Republic of China: Issues Summary*, 22 October 1997.

¹⁰⁶ Tsao and Whisler, *China Briefing Paper*, p.78.

¹⁰⁷ US Department of State, Bureau of Public Affairs, *The Trade Deficit with China*.

¹⁰⁸ Morrison, *US-China Trade Issues*, p.3.

but it has to be admitted that there were also genuine logistical problems with implementing agreements as well as growing concern in the country's political leadership that only state control over the allocation of resources could prevent the disparities in wealth afflicting the former Soviet Union and many of the East European economies. Indeed, in 1996 the World Bank defined China's "challenges over the medium term" as including the task of "reducing poverty and maintaining a relatively egalitarian distribution of income and wealth."¹⁰⁹ For its part, the US government agreed as part of the 1992 MOU to liberalise the export restrictions that limit Chinese access to technology. This would manifest itself in three ways. Firstly, China would benefit from any liberalisation of export control lists and procedures administered through the Co-ordinating Committee for Multilateral Export Controls (COCOM). Secondly, China would be eligible for liberalised treatment of computer export for civilian end users. Thirdly, the US agreed to liberalise controls on the export of telecommunications equipment and technology.¹¹⁰

Transparency

An issue which very much ties in with that of market access is that of generic economic transparency. Some steps were made to improve this when China agreed in 1994 to publish trade regulations more regularly. Several new national laws have been written which by assuring certain levels of financial disclosure and providing the framework for economic accountability improve market access for US firms. These include laws such as the Foreign Economic Contract Law and the Administrative Litigation law. Similarly, as James Shinn notes, there has been "a burst of progress in the standardisation of accounting" since the beginning of the 1990s. Shinn lists three major steps which have been taken between 1992-

¹⁰⁹ World Bank, *Trends in Developing Economies*, p.106.

1993. The Chinese government has revised the Accounting System for Foreign Investment Enterprises, enacted a new Accounting System for Joint Stock Companies and introduced a General Accounting Standard for the People's Republic of China. In Shinn's words, "these three acts, plus subsequent refinements, brought the rather rudimentary accounting of Chinese enterprises closer to international practice."¹¹¹ Shinn goes on to emphasise the role of the stock markets in forcing the issue of public disclosure by the Chinese authorities. The domestic stock market exchanges in Shanghai and Shenzhen, the Hong Kong exchange and even the New York exchange are all now subject to participation by Chinese firms. He notes that the market capitalisation of listed firms in China was roughly equivalent to 10% of GNP in 1995, while "the value of listed Chinese firms could well increase tenfold over the next decade, thus driving even more standardised reporting and public disclosure."¹¹² Such laws denote the growing prevalence of liberal practices within China and the move from centralised control to one founded upon the rule of law. Significantly, they make it easier for the US and other foreign governments to assess the level of Chinese protections more systematically. The majority of disputes since 1994 then have been highly specific sectoral disputes which continue, nevertheless, to fall within the ambit of market access.

Sectoral Disputes

From 1994 onwards, then, the question of market access has been suffused by highly specific disagreements relating to Chinese market barriers in several key sectors, with the Chinese having undertaken a decidedly less than cooperative stance. In the agricultural sector, the USTR showed particular anxiety over the imposition of what the US side labelled

¹¹⁰ Lardy, *China in the World Economy*, p.82.

¹¹¹ Shinn, "Economic Engagement", p.41.

¹¹² *Ibid.*, p.41.

"scientifically unjustifiable sanitary and phyto-sanitary conditions."¹¹³ In short, agricultural standards and tests were viewed as unfairly impeding the export of US fruits, wheat, and tobacco while also contravening WTO principles in that such rigid regulations were not being applied to China's domestically produced agricultural products.¹¹⁴ Another key area of dispute took place in the pharmaceutical sector where there are twelve US companies operating in the China market, representing 14% of this \$6.1 billion industry which is bound to become increasingly lucrative to US firms.¹¹⁵ The USTR raised complaints over the dearth of "administrative protection" provided for certain US products in this sector resulting in the erosion of exclusive marketing rights for US companies. A series of price controls introduced by the Chinese government in 1996 are viewed by US negotiators as discriminating against US pharmaceutical exports.

In April 1996, an angry exchange took place concerning what was, and is, a highly pertinent issue, given the ever expanding role of the media and communication in the global economy. On April 16 1996, the Chinese leadership granted the state-owned *Xinhua* news agency regulatory control over all foreign news agencies involved in the financial information sector within China. *Xinhua* would thus gain access to business information and technical knowledge accrued by western companies. Importantly, US negotiators felt this would allow China to manipulate product price and market access statistics. The USTR objected most strongly to the prospect of *Xinhua* assuming the role of "competitor and regulator" with the ability to "control consumers and contracts, and regulate prices" or, in the extreme case, "damage and

¹¹³ Office of United States Trade Representative, *Issues Summary*.

¹¹⁴ Tsao and Whisler, *China Briefing Paper*, p.78.

¹¹⁵ USTR, *Issues Summary*.

destroy the industry's business in China and elsewhere."¹¹⁶ It lodged a complaint through the US embassy in Beijing and, in September 1997, *Xinhua* allowed *Dow Jones* and *Reuters* to continue market operations without state interference. The dispute's successful resolution has given impetus to US negotiators involved in ongoing talks aimed at securing Chinese compliance with WTO rules on financial information services. There is a broader issue at stake here revolving around the creation of a freer media in China. The Chinese government's allocation of *Xinhua's* domestic monopoly on economic news has, as we have seen, run into fierce US opposition, but this is part of a broader trend towards informational liberalisation in China. In 1978 *Xinhua's* share of book sales was 95%, but, by 1995, it had fallen to 30%. As Shinn notes, "the government would have to clamp down on several key growth sectors, including telecommunications, computers, information services, and the entertainment business" in order to maintain centralised control of information. For Shinn, market access in areas such as media and news is symptomatic of the way in which capitalism incrementally corrodes the authoritarian system in China - a process which appears inexorable if China is to hold its own in the information-driven global economy which is largely antithetical to authoritarian forms of power.

Another source of US grievance in the general area of market access has been China's proclivity to contravene bilateral textile agreements by transshipping Chinese products surreptitiously whilst using counterfeit country of origin labels, by misclassifying textile and apparel products, and by exporting them through third countries. The US has threatened to severely reduce US quotas on textiles and was able to elicit Chinese concessions which were sealed by an agreement signed in January 1994. Despite the agreement, the US has nevertheless reduced China's textile quotas three times since 1994 due to continued violations

¹¹⁶ *Ibid.*

reported by the US Customs Service. The import categories found to contain the largest volume of transhipped goods were those covering knit shirts, sweaters, underwear, cotton trousers, and shop towels.¹¹⁷ Between 1991-93 it was estimated by US Customs that about \$2 billion in transhipped Chinese textiles and apparel was entering the US market.¹¹⁸ A February 1997 agreement was successful in convincing Chinese negotiators to accept reduced quota levels in categories where abuses have occurred as well as to grant further access to US textile and apparel products.¹¹⁹ It should be noted, however, that the problem of transshipments must be understood, at least since the mid 1990s, in the context of China's, and Asia's, excess industrial capacity and an incipient 'glut' which may lead to a flood of cheap exports lowering prices and profits in the US and the West as a whole. China's reversion to this tactic in trade perhaps demonstrates signs of panic amongst China's new capitalists in the face of what is a quintessentially capitalist problem.¹²⁰

A related problem has been that of overshipments. Under current law all merchandise entering the US which is in excess of a specified quota must be held in a customs warehouse until the commencement of the next year's quota. Between 1990-93, however, around 50% of the 88 categories of Chinese goods subject to quotas were being overshipped into the US market causing significant market disruptions. Again, this has to be seen in global terms due to the fact that the products in question were sent to the US by transit countries allowing goods 'Made in China' to fill unused portions of their bilateral quotas with the US.¹²¹ The Chinese government has argued that it is powerless to curtail illegal textile exports which enter the US

¹¹⁷ Tsao and Whisler, *China Briefing Paper*, p.71.

¹¹⁸ *Ibid.*, p.71.

¹¹⁹ Morrison, *China-US Trade Issues*, pp.12-13.

¹²⁰ R Samuelson, "The Asian Connection", *Newsweek*, December 15, 1997.

¹²¹ Tsao and Whisler, *China Briefing Paper*, pp.71-72.

via third countries and in 1993 recommended that the task of enforcing quota restrictions be shared by third countries outside China's control. The US rejected this approach and in 1994 threatened to impose unilateral reductions of 25-35% on 88 categories of Chinese textile and apparel products amounting to some \$1 billion overall. However, an agreement in mid-January 1994 averted this action and imposed an agreement in which access to the US market was significantly restricted by freezing quotas at the 1993 level and reducing annual increases from 4.4% to only 1% in 1995 and 1996.¹²²

Intellectual Property Rights

The questions arising from the thorny issue of intellectual property rights in US-China relations strike at the very heart of the role of knowledge in the global economy, as well as raising fundamental questions about the private/public separation of politics and economics at the heart of neo-liberal political economy. The neo-liberal view of IPRs was enshrined in the Trade Related Intellectual Property Rights Agreement (TRIPS) reached during the final Uruguay round of GATT negotiations in April 1995. Broadly speaking, the US approach to IPRs has been to bring China into line with a bilateral agreement reached in January 1992 under the Bush Administration with the TRIPS provisions agreed at the multilateral level of GATT and the subsequent WTO. The agreement also took the form of a bilateral Memorandum of Understanding (MOU) in which China agreed to join the Berne Convention for the Protection of Literary and Artistic Works and the Geneva Phonograms Convention while also agreeing to embellish patent, copyright, and trade secret laws. Chinese negotiators also pledged to take proactive measures in order to protect intellectual property, particularly in

¹²² Lardy, *China in the World Economy*, pp.85- 86.

relation to software, agrichemicals, and pharmaceuticals.¹²³ Despite complaints against USTR demands on IPRs in the years preceding the 1992 agreement, China has been fairly compliant with the fundamental principles of IPR protection. Though logistical problems have arisen China's foreign trade minister in 1994, Wu Yi, claimed that these simply reflect China's "vast territory and large population."¹²⁴ Susan Shirk notes: "the Chinese have been as compliant on the intellectual property rights issue as anyone could expect."¹²⁵ Chinese difficulties in implementing IPR agreements does, however, raise the question of the difficulties which will arise when China joins the WTO and has to implement a much broader set of regulations auguring a new spat of clashes over trade. Specifically, the Chinese government produced a White Paper on IPRs and set up IPR courts in Beijing, Shanghai, Guangzhou, Shenzhen, Xiamen and Haikou to adjudicate over alleged violations.¹²⁶ In 1992 China amended its 1984 patent law to give greater protection to US inventions - protection of inventions with a time limit of some fifteen years from the time of invention. Regulations were enunciated to extend new levels of administrative protection to pharmaceuticals and agrochemicals. In July 1993 the Chinese government announced the activation of strengthened trade mark laws, while in December of that year an Anti-Unfair Competition Law was enacted which ensured added protection to trade secrets.¹²⁷

It was China's enforcement and implementation of these laws, however, which soon rankled with US trade negotiators and, in April 1994, the USTR's "Special 301" Review of China's

¹²³ W Morrison, "The China-US Intellectual Property Rights Dispute: Background and Implications for China - US Economic Relations", *CRS Report for Congress 96-469*, May 24, 1996, Congressional Research Service, Library of Congress, Washington D.C., p.3.

¹²⁴ Shirk, *How China Opened Its Door*, p.80.

¹²⁵ *Ibid.*, p.80.

¹²⁶ *Ibid.*

¹²⁷ Tsao and Whisler, *China Briefing Paper*, p.74.

progress on IPRs concluded that unacceptable levels of IPR violations continued to occur in China. A specific criticism centred on the fact that China was concentrating its crackdown on retail outlets, rather than the sources of production which often escaped unpunished. On 30 April 1994, Ambassador Mickey Kantor gave China sixty days to meet US demands and halt the rising level of abuses perceived to be occurring. The USTR cited the opening of 26 new factories in China selling pirated CDs as evidence of ongoing negligence or complicity on the part of Chinese officials. Having placed China on a 'priority watch list' as early as November 1993, the US negotiators called for immediate measures, including raids on CD producers, the creation of a border enforcement regime to prevent the export of pirated goods with view to the long term, and the implementation of a copyright verification system, along with access to IPR courts.¹²⁸ Unsurprisingly, China was reticent in complying with measures likely to infringe its sovereignty in any way, and as a result was subsequently designated by the US as a "priority foreign country" under "Special 301" provisions of the 1974 Trade Act. The significance of this move is that China was thereby officially labelled as a violator of US IPRs and thus susceptible to a range of sanctions.

In February 1995 the USTR announced a series of products which would be subjected to 100% US tariffs amidst growing tensions relating to the general direction of the US-China relationship. China's government counter-attacked by threatening retaliation, including the prevention of US audio-visual products from entering the Chinese market. An agreement was reached on February 26 1995, in which China's government pledged itself to strengthening its short and long-term commitment to an enforcement strategy and to removing import and investment barriers on US intellectual property products, including the removal of import quotas on US audio visual products and the extension of marketing rights to US record

¹²⁸ Morrison, *The China-US IPR Dispute*, p.3.

companies.¹²⁹ The International Intellectual Property Alliance (IIPA), a group consisting of mainly US film, recording, software and book producers, had estimated losses of \$866 million in 1994 and \$1.1 billion in 1995.¹³⁰ In 1995 Mickey Kantor echoed these figures, reporting losses of, on average, \$1 billion yearly (according to USTR figures) since the signing of the MOU in 1992.¹³¹

In 1996 China was again appropriated Special 301 pariah status by the USTR for failing to comply with the 1995 agreement and threatened with \$2 billion in US sanctions targeted specifically against Chinese products made in Guangdong province (the primary source of pirated goods) should China fail to make progress by June 1996. The US record industry remained particularly perturbed at the undercutting of its competitive position in the global market, citing the fact that even after the 1995 agreement China continued to produce 100 million CD units annually, selling only 5-7 million units within China, while exporting the remaining products to overseas markets.¹³² By 1997 the USTR could note with pleasure that china had closed 58 CD/CD-ROM factory lines and had eliminated quotas on foreign sound recordings.

Prison Labour

The issue of prison labour has been a prime source of contention within the context of the US-China trade relationship. In August 1992, the US and China signed another Memorandum of Understanding (MOU) in which China pledged not to export products manufactured by prison labour to the US. Allegations that China has flouted this agreement in order to enhance its

¹²⁹ *Ibid.*, p.4.

¹³⁰ Chang-Bloch, *Commercial Diplomacy*, p.198.

¹³¹ A Wineburg, "The Close of Round Two", *The China Business Review*, July-August 1995, p.21.

¹³² Chang-Bloch, *Commercial Diplomacy*, p.199.

competitiveness have not resulted in concrete action from the US administration which tacitly accepted that 'progress' had been made when, in March 1994, it signed a Statement of Cooperation on the Implementation of the MOU. Moreover, it has been claimed that the Chinese use of prison, or forced, labour in the manufacture of exports is negligible. The economist James Seymour of Columbia University has claimed that "prison labour is largely a 'non issue' because the amounts involved are so small." He goes on to affirm that "prisons produce less than one-fifth of 1% of China's GNP, citing the fact that "federal and many state prisons in the US export the products of inmates working for a small fraction of the minimum wage."¹³³ The prison labour issue has been omnipresent in US-China relations but it has never been elevated to the status of IPR abuses or market access. The American Federation of Labour-Congress of Industrial Organisation (AFL-CIO), however, has striven to bring attention to the contravention of workers rights, claiming, for instance, that "more than one half of China's vulcanised rubber, one third of its tea, one fourth of its asbestos" and "one fifth of its mercury" are among the goods produced by forced labour in China and subsequently exported to the US.¹³⁴ There seems little way of ascertaining the extent of abuses occurring in China, in part due to restricted foreign access, but it does seem imperative to recognise that technical arguments which view prison, or forced, labour merely as economic vices to buoy up China's comparative advantage are irrelevant as compared to some of the fundamental social issues raised. The prison labour issue dovetails with a broader debate on labour standards, bearing in mind that some 70% of foreign-funded firms were found to be violating worker's rights in

¹³³ James Seymour cited in Carl Riskin, "Behind the Silk Curtain: We Need sumitry Not Sanctimony", *The Nation*, 10 November 1997.

¹³⁴ AFL-CIO representative Larry Fishkin, quoted in *China and MFN Trade Status: A Public Hearing Featuring US Government, Academia, and Human Rights Representatives: Summary and Findings*, Washington College of Law, American University, Washington D.C., May 20, 1994, p.4.

China in 1994.¹³⁵ It is apposite to note that these issues would be solved more easily at the global level, thereby averting charges and counter-charges by both sides relating to anti-competitive practices and protectionism.

US Sanctions on China

A pivotal component in the political economy of the US-China trade relationship revolves around the issue of sanctions. In 1989 a number of sanctions were placed on China following the Tiananmen Square massacre and amidst burgeoning anxieties over China's nuclear proliferation. While sanctions relating to weapons exports and the granting of export licences for Munitions List items have maintained support, those relating to the suspension of feasibility studies by the Trade and Development Agency, those forbidding the use of OPIC loans and insurance programmes, and those preventing Eximbank loan guarantees are seen to be thwarting the US private sector in China and undercutting the Administration's concerted push for trade liberalisation. More specifically, they have directly contributed to the more successful strategies of US rivals in the China market. The Treasury Department, largely charged with seeking to improve conditions for US financial services in China as well as to facilitate market operations by promoting easy access to credit and liquidity, has been particularly frustrated by Congressional insistence on maintaining such measures, which are largely a response to the trade deficit as well as China's one party system.

Nicholas Lardy has identified trade sanctions and other political controls along with America's dearth of export credits, as being a key element within US structural disadvantages in the China market. According to Lardy, "American firms need access to export credits comparable

¹³⁵ Shirk, *How China Opened Its Door*, p.84.

to those offered by their competitors.”¹³⁶ Though the Clinton Administration recognised the need for a more proactive and interventionist strategy in terms of financing exports through the National Export Strategy (set up in 1993), there have been many restrictions on the budget and on the operations of the US Eximbank. Lardy notes that the National Export Strategy only proposed \$150 million to finance major capital projects overseas. This amount is less than the average amount provided in loans by the Japanese Eximbank in China alone during the years 1990-91. Lardy notes that the Japanese OECF package (discussed briefly above), provides \$1 billion in aid to China annually, much of which is used to finance the sale of Japanese goods to China.¹³⁷ From the US perspective, the worrying trend here is that Japan’s export aid packages may give Japanese firms a structural foothold in the China market, while US firms are hampered by unilateral sanctions and Congress’s systematic underfunding of the Eximbank and OPIC operations in securing market share. Moreover, Japan has shown little concern with China’s human rights record when devising trade policy and has avoided the bureaucratic in-fighting between economists and moralists so intrinsic to the US-China policy debate. One Treasury official claimed the Department’s ‘hands were tied’ and the US’s broader economic policy in China was severely undermined by domestic US legislation.¹³⁸ Once again, this goes against the idea that the US pursues policies wholly based on economic rationality or self-interest.

New sanctions on technology exports in 1993 banned the sale of \$1 billion worth of high-tech goods to China for over two years, cutting such companies as Hughes Aircraft, Collins

¹³⁶ Lardy, *China in the World Economy*, p.131.

¹³⁷ *Ibid.*, p.132.

¹³⁸ At an interview conducted at the US Department of the Treasury a senior China specialist claimed the Treasury’s “hands were tied” in terms of encouraging key financial reforms by the Chinese government. Interview, US Department of the Treasury, Washington D.C., 12 December 1997.

Avionics and Rockwell International out of the bidding.¹³⁹ According to Chang-Bloch, sanctions have also prohibited the sale of the steam generators and turbines to China required to facilitate China's burgeoning electricity needs. US firms such as Westinghouse and General Electric lost sales in a market estimated to be worth \$200 billion over the next ten years - 25% of which would consist of energy supply from foreign suppliers.¹⁴⁰ The Chinese foreign trade minister, Wu Li, has argued that the US trade deficit is accentuated by sanctions applied to strategic goods and high technology items, claiming that China wants to buy at a far greater level but is prevented from doing so by US law.¹⁴¹ Indeed, with the US-China trade deficit's meteoric rise over the last few years very much in mind the US has moved to relax controls, reaching a deal with China in October 1997 designed to allow greater access for US corporations. The deal lifted the ban on nuclear trade and was worth some \$100 billion over a twenty-five year period. It has given US companies some 60% of the Chinese nuclear power market.¹⁴² This compounded the Administration's decision in February 1996 to allow Hughes Electronics, Lockheed Martin, and Loral to tap into the lucrative satellite market in China by permitting contracts running into hundreds of millions of dollars.¹⁴³

Thus China's growing economy is resulting in increased political leverage over the US, especially with the trade deficit so high. In this climate we can expect increasing pressure from transnationals within the US to dispense with sanctions in the belief that restrictive political measures have no place in the economic domain. Moreover, the fact that a whole raft of sanctions remain, especially those blocking Eximbank and OPIC financial activity in China,

¹³⁹ Chang-Bloch, *Commercial Diplomacy*, p.205.

¹⁴⁰ *Ibid.*, p.202.

¹⁴¹ Bangsberg, *Open to US Trade, China Hints at Pre-Summit Foray*.

¹⁴² "US-China Pact Should Unlock Nuclear Trade", *Journal of Commerce*, October 21 1997.

¹⁴³ Chang-Bloch, *Commercial Diplomacy*, p.205.

demonstrates that political decisions have not yet been surrendered to the market even when such decisions are seen to blunt the sword of US competitiveness. In this sense, trade policy cannot be said to be merely the preserve of the business community but a contested issue dominated by no single interest.

US Policy and China's Structural Reforms

China's SOE Reforms and Contradictions in US Policy

This section of the chapter evaluates the contradictions between the push for Chinese economic reform by both US and Chinese elites and the way in which such a push is likely to disrupt social stability and possibly long-term economic transition. It is also argued that the Asian financial crisis represents a turning point in China's long march towards reform. Often the question of the physical trading relationship between the US and China in goods and services obscures the centrality of financial reform in ensuring market discipline and generating self-sustaining market norms. It is China's reform of key institutions and their market operations which is truly the litmus test of whether China is becoming more integrated with the world economy and whether US policies are succeeding in promoting liberal reforms.

Let us firstly look at some of the deeper financial reforms undertaken by China thus far and encouraged by the US and multilateral lending institutions. As mentioned above a 1993 report from the US Department of the Treasury alleged that China was manipulating its exchange rate through government interference in foreign exchange markets. At this time the US Treasury also called for several financial reforms along neo-liberal lines including the simplification of the tax rate and its structure, currency convertibility, and reform of China's State-Owned Enterprises (SOEs). It is the latter demand that we focus on here in that China's

proposed reform of its SOEs not only represents a potential turning point in the reform process but also illuminates major contradictions in the political economy of US policy towards China.

The SOE reform process correlates with the growing marketisation of the Chinese economy as well as China's efforts to enter the WTO. In 1995 Zhu Rongji, China's chief economic minister, declared that the Chinese government would retain 1,000 of the largest enterprises while the rest would be "thrown out to sea" - meaning diversification, divestiture of assets, mergers, leasing, joint ventures, conversion to collectives, and extinction.¹⁴⁴ One financial analyst in Beijing has dubbed the process as "an almost Thatcherite programme"¹⁴⁵ in that it has resulted in a great deal of labour unrest and job losses likely to precipitate industrial unrest in the near future. Again, the US Treasury has supported China's privatisation drive in the state sector while, at the same time, Treasury department officials claim they fully support China's incremental strategy and believe that any hasty dismantling of China's state sector would be a great mistake and likely to precipitate economic instability detrimental to foreign investment.¹⁴⁶ Thus, there are clear fault lines between advocating orthodox neo-liberal reforms and the pragmatic pursuit of policy when social factors are taken into consideration. According to the United Nations, around 20% of employees in the SOEs are thought to be underemployed labour liable for redundancy under market conditions. This comes on top of the 110 million rural workers already estimated to be loss-making and unnecessary in a free market context.¹⁴⁷ The World Bank has estimated that around 80 million Chinese have

¹⁴⁴ World Bank, *Trends in developing Economies*, p.106.

¹⁴⁵ "Asia's Next casualty: Bad Banks Could Clobber China", *Business Week*, December 15, 1997.

¹⁴⁶ Interview, US Department of the Treasury, 12 December, 1997.

¹⁴⁷ United Nations, *World Economic and Social Survey*, p.38.

remained in 'absolute poverty' during the reform period overwhelmingly living in rural areas.¹⁴⁸ These figures would suggest that rapid reforms could broaden inequality and thereby threaten stability in China.

It is against this backdrop that US economic policy towards China and China's own reform process must be understood. The reform process entered a new phase in 1997 when Zhu announced a new phase in reform of the state sector likely to result in the shedding of 10 million jobs in two years and which dampened demand in the Chinese economy due to widespread fears in China over imminent jobs losses. The upshot of this strategy has been a fall in Chinese exports to Japan of 11.5% combined with a decline in exports overall. As Breslin notes this, decline in overall exports has dovetailed with "an increase in both exports and the trade surplus with the USA and creates new challenges in the bilateral relationship."¹⁴⁹ The whole question of China's monetary strategy is, indeed, a moot one with the US and financial institutions urging China's leaders to keep a hold on inflation and introduce market principles in most sectors of the economy. In 1993 Zhu famously stated that "what we want is a soft landing while the growth rate is gradually lowered. If we drastically reduced the growth rate, we would have to pay the cost of social stability."¹⁵⁰ Zhu was speaking after the manifest failure of a government austerity programme that year which aimed to redress the spiralling growth rate with the introduction of lower inflation targets and cuts in public spending.

There is something of a twist to the entire debate on the trade deficit in that foreign leaders and companies tend to emphasise short-term growth at the expense of macro-economic stability and long-term social cohesion in China which encourage intermittent surges in

¹⁴⁸ World Bank, *Trends in Developing Economies*, p.106.

¹⁴⁹ Breslin, "The Politics of Chinese Trade", p.1190.

¹⁵⁰ Funabashi et al, *An Emerging China in a World of Interdependence*, p.39.

Chinese exports as well as inflation and, thus, run contrary to the supposed aims of neo-liberal reforms. Interestingly, this point is forcefully articulated by a joint study written by Yoichi Funabashi, Michel Oksenberg and Heinrich Weiss on behalf of the Trilateral Commission. Funabashi *et al* argue that there is a "get rich quick" mentality among many Chinese and foreigners doing business in China" and that "this mentality emphasises short-term profits and 'exploitation' in the worst sense of the term, rather than responsible and sustainable development."¹⁵¹ Funabashi *et al* further argue that "the Trilateral governments have also been affected by this approach; the visits of political leaders usually focus on stimulating economic interaction without sufficient regard to the longer-term implications."¹⁵² An example of this short-term tendency is illustrated by an article which appeared in *Business Week*. In 1997, the president of the Chinese Construction Bank set up an International Investment Bank with US firms, Morgan Stanley, Dean Witter, and Discover and Co, to undertake joint deals in China and overseas. However, within China the Construction Bank's president, Wang, planned to cut 100,000 jobs and close 25% of his banks.¹⁵³ Thus the whole process of market reform, elucidated most forcefully by the privatisation of the SOEs, raises key questions as to who benefits from the process. In the example just given foreign investors and wealthy elites in China are the prime benefactors of short-term strategies which show little concern for the long-term development of China's infrastructure. The US Treasury Department has blamed China's inability to reform the state sector on China's concomitant banking crisis characterised by over-investment, inadequate tax collection and the creation of reserve money to stimulate failing industries which, by the mid 1990s, lead to an inflationary crisis. This situation was exacerbated by \$200 billion in non-performing bank loans lent to SOE's by China's banks.

¹⁵¹ *Ibid.*, p.42.

¹⁵² *Ibid.*, p.42.

¹⁵³ "Asia's Next Casualty" *Business Week*.

However, similar practices in other Asian economies were fuelled by international lending institutions and by foreign investment in the hope of reaping short-term dividends. It is most likely, that such sources would have done the same in China had restrictions on capital flows not existed, causing China's currency to collapse in tandem with Asia's other vulnerable economies. Indeed, according to Nicholas Lardy, \$116 billion of China's state debts are external despite capital account restrictions.¹⁵⁴ This leads us to consider the implications of the Asian financial crisis for US-China relations and the extent to which it impacts on Chinese reforms required to join the WTO.

The Asian Financial Crisis

The Asian financial crisis has impacted on the US-China trade relationship in several significant ways. Firstly, it puts into question China's continued trade liberalisation strategy encouraged by the US and eagerness to join the WTO. It also illuminates America's weakened position in the regional economy when it comes to financial markets. Secondly, it brings into question China's export-led growth strategy which was shown to be vulnerable to sudden changes in the global economy. The last point dovetails with the US-China trade deficit and China's reliance on the US market for the export of labour intensive products.

The events which conspired to create the Asian financial crisis of 1997-98 suggest that had China's economy been as porous as others in the region, particularly as regards its overvalued currency and structural problems with non-performing bank loans, then it would have been "washed away" in the words of a US Treasury Department official.¹⁵⁵ This puts the US in the complex situation of having advanced reforms of China's economy which it now admits may

¹⁵⁴ Lardy quoted in "China Stands on the Sidelines of Asian Financial Chaos", *Los Angeles Times*, November 25, 1997.

have escalated the Asian financial crisis and, indeed, spread the so-called 'contagion' to the west in the event of any collapse in Chinese demand. It was for this very reason that President Clinton argued strongly against any devaluation of the Chinese *Yuan* during a meeting with China's leaders in 1998.¹⁵⁶ In many respects, this signifies an enhanced structural position for China's currency in the global economy and a chip with which to barter in negotiations with the US over entry to the WTO. It also demonstrates the level of US impotence in controlling the crisis despite the much vaunted neo-liberal restructuring packages foisted upon Indonesia and other Asian economies by the IMF with strong US support. In short, China's currency had assumed a new weight in the global economy magnified by the crisis and the fact that it was China's competitive devaluation of the *Yuan* in 1994 which undercut the competitive edge of other Asian economies and had a devastating impact on their exports. Significantly, China's 1994 devaluation was part of a restructuring policy strongly encouraged by the US and the IMF as part of a move to liberalise China's currency and move to a market responsive exchange rate.

In November 1997 the *Los Angeles Times* appeared to be in no doubt as to why China seemed to be weathering the storm which had paralysed Malaysia, Indonesia and South Korea, stating that "the main reason the world's most populous country has so far avoided the fall is that China does not share one thing with its Asian neighbours: an easily convertible currency." In the same article Laurence Brahm, the managing director of Beijing-based venture and capital investment firm, NAGA, said "China is probably the safest place to have your money because its currency is not fully convertible and therefore is not exposed to the kind of speculation

¹⁵⁵ Interview, US Department of the Treasury, 12 December, 1997.

¹⁵⁶ J Gray, "Bill in a China Shop", *The Guardian*, 28 December, 1998.

which has sparked the crisis in South East Asia."¹⁵⁷ Moreover, in 1997 new contracts for FDI in China dropped by 39% and US investors alone withdrew \$3 billion from mutual funds in the Asian region generally in order to steady the nerves of shareholders.¹⁵⁸ We should note that although liberalisation of China's current account and dismantling of trade barriers can still be viewed as beneficial it is the liberalisation of China's capital account and its foreign exchange which would expose China to speculative capital and financial shocks. In this sense China is almost certain to persevere with policies which encourage high rates of domestic savings among Chinese consumers. The World Bank has estimated that "if China's savings rates persist at their high levels (42% of GDP in 1994), China will not have to significantly increase its reliance on foreign finance to meet its growth target of 8% as proposed for the ninth five year plan."¹⁵⁹ This is, of course, not to argue that China can or should move away from global trade but that over-reliance on exogenous financial capital could store up future problems and detract from longer term investment needs. In this context the US Treasury's criticism of China's foreign exchange reserves has to be taken into account. The US Treasury has argued that China's "over-investment and accumulation of reserves" is detrimental to US exports and free trade and that China's leaders should be "using its huge reserves to develop infrastructures" and should be curtailing a level of reserves inappropriate to "a still poor country."¹⁶⁰ This can be seen as part of an anxiety that China is creating something of a buffer zone between its domestic reforms and the global economy. For its part, complete financial liberalisation would likely, at the current juncture, further erode China's leaders control of the reform process and leave them with only macro-economic levers, primarily interest rates, with

¹⁵⁷ "China Stand on the Sidelines", *Los Angeles Times*.

¹⁵⁸ Samuelson, *The Asian Connection*.

¹⁵⁹ World Bank, *Trends in Developing Economies*, p.108.

¹⁶⁰ Interview, US Department of the Treasury, 12 December, 1997.

which to control the economy. In this sense the Asian financial crisis may have compounded the Chinese leadership's declaration in October 1997 that it was reluctant to open China's financial markets any further for the foreseeable future.¹⁶¹

The second factor to consider emanating from the Asian financial crisis relates to the continued efficacy, or otherwise, of China's export strategy which has deterred domestic investment in the economy. Over reliance on exports has illuminated the fragility of China's reforms and the potential for disaster as foreign demand drastically declines. China lost its regional export markets in 1998 while, simultaneously, international investors tended to keep out of the region due to a collapse in market confidence. Consequently, China suffered much reduced growth and price deflation in 1998 combined with threats to employment. This compounded problems of severe undercapacity in the Chinese economy with half of Chinese industry running at 60% capacity in 1996.¹⁶² As stressed, the collapse of regional markets fuelled the bilateral US trade deficit with China despite China's falling rate of overall exports with the world economy. In short, the crisis again structurally skewed bilateral trade dispute with the US while alerting China's leaders of the overall risks in relying solely on exports as a strategy for growth. Breslin has stressed the need for China to look to a more Keynesian strategy of domestic expansion combined with investment in Chinese human capital and high-tech sectors of China's domestic economic base. The risks in failing to do so are that an economy producing cheaper low value-added goods than China may soon come along decimating China's competitive edge while leaving it out of synch with the advanced capitalist economies already innovating in new technologies at a rapid pace. From a US perspective this would, of course, alleviate the bilateral deficit while providing new opportunities to

¹⁶¹ R. Sutter, "China's Changing Conditions", *CRS Issue Brief IB 97049*, Congressional Research Service, Library of Congress, Washington D.C., October 1997, p.10.

manufacturers of advanced technology within the US. It would also encourage longer term investment opportunities more attuned to China's overall development. It may also solve issue such as prison labour exports and abuses of IPRs in that these contraventions of WTO rules are intimately bound up with China's position as an exporter of labour-intensive goods.

Conclusion

In this final section we consider what US-China trade relations imply for American dominance in the world order. We broadly agree with Gill and Law's view that "fears that a decline in American dominance will lead to a breakdown in the liberal international economic order are largely misplaced, especially when the importance of economic interdependence among the major capitalist states, and the open door to foreign direct investment are recognised."¹⁶³ Despite the many disputed areas in US-China policy the fact remains that China's leaders want to bring the country within the liberal world trading order. The main outstanding arguments are about the type of capitalism China will adopt and the pace at which it reforms the economy. It is true, that disputes such as that surrounding MFN have been politically important but it often tends to reflect either outdated Cold War ideology or human rights concerns which were hardly mentioned during the Cold War when China's human rights record was far worse. Indeed, during the Cultural Revolution many western radicals were lauding Maoism despite human rights abuses which dwarf those currently taking place within China. In short, China's reliance on the US market for growth and particularly advanced technology is likely to temper it behaviour in other realms. Moreover, China's increasing imbrication with global institutions suggest that the broad appeal of consumer freedoms is

¹⁶² Breslin, "The Politics of Chinese Trade", p.1192

¹⁶³ S Gill and D Law, *The Global Political Economy: Perspectives, Problems and Policies*, Hemel Hempstead, Harvester-Wheatsheaf, 1988, p.358.

likely to enhance China's reform process. This again suggests American dominance, if not hegemony, at the level of world order which makes the US an indispensable partner. At the October 1997 summit between and President Clinton and Jiang Zemin China indicated its reliance on US information technology by committing itself to full participation in the Information Technology Agreement while, as part of ongoing WTO negotiations. President Clinton has also stressed that China's WTO entry is his last great foreign policy aim as US President which suggests that the US may be moving towards a modified form of entry for China as described above.

Much of this chapter has focused upon the bilateral complexities of the US-China relationship particularly the question of the bilateral deficit and the way trade statistics have been manipulated for political reasons. The MFN debate in the US is extremely important as the locus for discontent with the US trade deficit *overall*. One of the key reasons that China is singled out for criticism is because of China's structural role in international division of labour rather than any peculiarly protectionist path followed by China's leaders. Thus while US policymakers support tough bilateral action on economic issues such as the trade deficit this must be seen in the context of the Clinton Administration's attempt to keep Congress in line with the policy of engaging China. In short, it is part of the price paid by policy makers of having to compromise with a Congress in which there exist strong protectionist tendencies. This is borne out by the fact that the trade deficit is seen as inevitable given China's export policies and the nature of demand in the US market.¹⁶⁴ This is not to say, however, that the US is necessarily wrong to demand China's lowering of tariffs in certain areas where they are prohibitive to free trade given the extent to which the US market has facilitated China's growth throughout the reform years. Again, this is borne out by the fact that China maintains

a trade surplus with the US while running sizeable global trade deficits. It is also worthy of note that even Japan imposed anti-dumping penalties on Chinese steel production in 1994- its first ever resort to such penalties.¹⁶⁵ Thus, China's trade strategy is not simply causing problems for the US - indeed the EU refuses to acknowledge China as a market economy. It is also the case, however, that much of China's problems with bilateral trade accords and WTO demands relates to what Oksenberg and Lieberthal term "fragmented authoritarianism."¹⁶⁶ As power moves from the centre to the myriad provinces and locales central control becomes more difficult as a series of bargains and compromises with disparate agencies holding fast to disparate policy preferences have to be struck by the centre. This is particularly the case with intellectual property rights and prison labour issues which easily escape central government control. In short, capitalist reforms encouraged by the US somewhat ironically make trade liberalisation more difficult to enforce while, of course, threatening social stability and, in turn, market confidence.

American leverage over China is also much in evidence if we look at FDI. Despite a great deal of restrictions on US firms due to government sanctions on China (see above) US firms are moving, along with Japanese investors, into high technology sectors which make them indispensable to China's overall development (see the above discussion of General Motors). We did argue that the US government's inability to support US firms in the way the Japanese have through the OECF has hindered the US capture of the market in these areas and, as Lardy argues, may mean that several long term projects escape the grasp of US firms. The issue of FDI also clouds the 'national' character of the trade deficit debate in that many firms

¹⁶⁴ Interview, Department of Commerce, October, 1997.

¹⁶⁵ Funabashi et al, *An Emerging China in a World of Interdependence*, p.41

¹⁶⁶ See K Lieberthal and M Oksenberg (eds), *Policymaking in China: Leaders, Structures, and Processes*, Princeton, Princeton University Press, 1988.

are operating on a transnational basis importing components from within the Asian region while also exporting goods manufactured by predominantly US companies which subsequently count as Chinese exports. In short, FDI is gradually pulling China towards the global economy and is necessary to China's future development as well as crucial to US foreign economic policy. Nevertheless, it does involve the employment of cheap and easily exploited labour with few rights though the best way forward may be a code of conduct for US firms rather than an insistence on human rights standards which are often seen in China as protectionist. It is also worthy of note that investment in China has, on the whole, been extremely uneven gravitating towards the coastal regions. In the long-term this trend may be counter-productive for both the US and China in that it leaves the vast interior with systematic under-investment and creates huge social problems of urban migration. We noted above China's 1992 reforms which opened new areas of the country to FDI and which have attracted Japanese long-term infrastructural investment. Similar US investment may well foster both long-term social and financial stability and help in capturing parts of the Chinese market which may grow in the future. In this sense, the fostering of a stable civil society can only come about through widening the geographic scope of investment.

The question of China's entry to the WTO has engendered major divisions in US policy much of which, yet again, hark back to the MFN debate. Yet a broad consensus has emerged supporting China's inclusion in the belief that this will foster a more cooperative China in the international community. Lardy, for instance, sees multilateral engagement as strongly preferable to bilateral disputes on IPRs, textiles, market access and so on. According to Lardy unilateral sanctions "impose a higher cost on US exporters than they do on the Chinese

government” and in this sense are non-sensical and counterproductive.¹⁶⁷ The only viable policy in this view is to “systematically integrate China into the world economy.”¹⁶⁸ As we outlined in Chapter 2 this policy has a rich historical lineage halted only by the Cold War. The only alternative may well be a nationalistic or protectionist US policy of isolating China which seems completely unviable. As Lampton notes there is always the argument of “who wrote the rules” and who benefits from the WTO with China wishing a more proactive role in setting the terms of trade.¹⁶⁹ In a Gramscian sense, then, the WTO could be seen as co-optive and as socialising China into accepting neo-liberal norms. While this may be the case it would seem that China's entry to the organisation will make it more likely to implement certain labour standards and other social standards by mutual consent and on the basis of global cooperation which averts protectionism and the disastrous mindsets it can engender. This will require US leadership in pushing short-term bilateral issues to one side in order to secure China's entry into a multilateral forum. Moreover, reform of trade under globalisation needs to occur at the global level for, as we have seen above, the national character of US-China trade is, in any case, highly questionable. The WTO is more likely to address questions such as the role of third parties in textile transshipments and the part played by various nations and firms in contributing to trade disputes which often fall outside the national jurisdiction of the parties involved. Thus, globalisation changes the way US-China trade relations should be conceived.

Our last section discussed the impact of the Asian financial crisis and, more specifically, its impact upon US-China trade and China's economic liberalisation. In terms of American financial hegemony the crisis did reveal the importance of China's currency and growth

¹⁶⁷ Lardy, *China in the World Economy*, p.139.

¹⁶⁸ *Ibid.*, p.140.

¹⁶⁹ D Lampton, “A Growing China in a Shrinking World: Beijing and the Global Order”, in Vogel (ed), *Living with China*, p.122.

strategy on a global level. Not only did China's devaluation of the *Yuan* in 1994 precipitate the crisis by undercutting regional export competitors but China's policies during the crisis were also crucial. Any devaluation of the *Yuan* during the crisis may well have broadened it and this was evidenced during President Clinton's 1998 visit to Beijing. The crisis also raises questions about China's reliance on exports in the future as opposed to constructing a high-tech economy based on Keynesian policies of managed growth and investment in the populace. As noted above such policies may prevent China from becoming vulnerable to market slowdowns elsewhere - particularly in the US where the vast bulk of China's low-end of the market consumer products are consumed. In sum, US-China relations can still be understood within a Gramscian framework of hegemony. US dominance of multilateral institutions, namely the WTO, remains sufficient to draw China towards more liberal policies. However, China's room for manoeuvre within these constraints remains fairly large and the Asian financial crisis has highlighted the importance of state intervention and regulation to China's economy as well as the fact that US policymakers broadly recognises this when confronted by the alternatives.

Chapter 4

Moving Beyond State-Centred Analyses: The Role of Social Forces in US-China Relations

Introduction

This chapter investigates two separate but interrelated sets of questions and, in essence, seeks to overcome traditional reductionist views of the state, culture and the state-society nexus. Firstly, it seeks to examine the social forces involved in determining US foreign policy towards China and to investigate the roles of transnational actors, such as business and NGOs, which often can, and do, wield more power than states in the new global political economy. This applies particularly to the US but also to China as centrifugal forces are now structurally altering the Chinese state and opening up social spaces for new political and economic actors. Secondly, this chapter attempts to shed light upon the debate on human rights and the widely differing concepts of rights which exists between and within both nations. Again, this applies most obviously to the highly plural political culture of the US but increasingly to China where 'Asian values' are being redefined in relation to an increasingly market oriented society where class, regional and cultural divergence is occurring in response to economic reform. Applying a critical approach, then, we attempt to reflect the emergence of new social forces concomitant with the process of the internationalisation of the state in which, in Jessop's words, "there is a movement from the central role of the state apparatus in securing state-sponsored economic and social projects and political hegemony towards an emphasis on

partnership between governmental, para-governmental and non-governmental organisations in which the state apparatus is often only first among equals."¹

The Making of US China Policy in a Post-Hegemonic World

Without fully accepting the pluralist assertion that the state is an unbiased filter of competing socio-economic interests it is true that the US state is unusually weak and permeable, open to diverse lobbying interests and often unable to fashion coherent state strategies as a result. The impact of lobbying groups on US China policy has been immense and, in many senses, goes to the heart of debates about the nature and role of American democracy which of course have a rich historical lineage.² In this sense, it is more appropriate to view America's China policy in the plural sense of an evolving and contested activity swung to and fro by an eclectic amalgam of groups, lobbies and political actors.

The domestic backdrop to America's China policy involves a capital versus labour element but one which traverses left and right in that it pits the interests of free trade against a diverse set of interests promoting environmental issues, human rights, workers rights, religious rights, abortion rights and unilateral policies of an often reactionary nature.³ Cleavages over China policy, we argue here, elucidate the current effort in America to reimagine foreign policy in a post-hegemonic world of multipolarity which reflects both the inward pluralism of US society and the diversity of the emerging post-Cold War world order. For Ruggie, this involves "more than modifying the scope and intensity of specific commitments to fit with narrow, case-by-

¹ R Jessop "Capitalism and its Future: Remarks on Regulation, Government, and Governance", *Review of International Political Economy*, Vol.4, No. 3, 1997, pp.574-575.

² The continuing debate over American exceptionalism goes back to the political conundrums which vexed James Madison, Alexander Hamilton and Thomas Jefferson. These debates highlight both the tensions between republican and popular notions of democracy and political pluralism and stable government.

³ Pat Buchanan described Deng Xiaoping as a "chain smoking communist dwarf" at the 1992 Republican Party convention, "How America Sees China", *The Economist*, October 25, 1997.

case strategic assessments." It requires that a " framework of policy be devised that makes sense to the American people and which specifies milieu goals that they will aspire to."⁴

For Ruggie, and others, this would require a political project in which the US uses its still considerable structural power at the global/institutional level to enhance multilateral institutions and, by divesting certain unilateral privileges, takes a moral lead in forging a more egalitarian world order undergirded by self-determination, autonomy and institutional mechanisms to ensure international cooperation prevails. Following Ruggie's view, we can see that a move to "collective security" in a post -territorial era would provide the basis for a moral consensus currently absent from US-China relations and would accommodate China's new found global power in a co-operative manner. Such an approach would also place less emphasis on the zero-sum economic competition which currently undermines the prospect of new global regimes of regulation and governance. Importantly, in the context of the argument which follows, a more socially grounded US foreign policy would not necessarily be antithetical to free trade. Rather, free trade would be grounded in a set of socially responsive regulatory mechanisms at the global level covering issues such as labour, human rights and so on. In this vein, we argue that some of the arguments from both left and right which favour the withdrawal of China's MFN status are over-simplified and would be detrimental to the global community. Rather, such groups, certainly of the progressive left, would be better arguing for international re-regulation of the global economy than any myopic retreat into protectionism or trade wars.⁵ Let us now appraise these social forces using China policy as an outlet to express competing visions of US foreign policy.

⁴ JG Ruggie "Interests, Identity, and American Foreign Policy" in J Ruggie *Constructing the World Polity*, London, Routledge, 1998, p.226.

⁵ Arguments stressing the counter-productive nature of protectionism in a globalising economy are well made in P Hirst and G Thompson, *Globalisation in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996, p.138. See chapter 6 for a full discussion.

The Executive Branch in the Making of China Policy

During the period 1992-1994 human rights were seen to have gained ascendancy in the US government bureaucracy with Winston Lord's Bureau of East Asian and Pacific Affairs setting the agenda on China policy. Lord's personal commitment to human rights, along with that of Secretary of State, Warren Christopher, brought China policy into conflict with business interests as well as the trade strategy of the Clinton Administration overall. These disputes were illuminated when Bill Clinton set up a Senior Steering Group (SSG) to coordinate China policy in 1993. Then Secretary of State for the Treasury, Lloyd Bentsen, Ron Brown at the Commerce Department, Robert Rubin of the National Economic Council (NEC) and Clinton's chief economic aide, Thomas 'Mack' McClarty, effectively circumscribed bureaucratic resistance from Christopher and Lord arguing that isolating China undercut the basic premises of Clinton's foreign policy. In an age of geo-economics, it was argued, US idealism had to be tempered with a heavy dose of economic realism and a realisation that surrendering the China market to competitors was not a policy option. This argument was bolstered by the fact that both Brown and Rubin had strong support from big business and Wall Street - constituencies which publicly intervened in the debate and helped swing Clinton away from a strong human rights caucus in the Democratic Congress. The reversal of the policy linking human rights to MFN can thus be seen as a defeat for Lord's bureaucratic constituency and marked a definite shift towards strategies emanating from the Treasury and the Commerce Departments.

Stanley Roth, Clinton's second Assistant Secretary of State for the Asian region, appointed in August 1997, is far more attuned, however, to geo-political and geo-economic priorities in contrast with the moral emphasis of Lord. It is also worthy of note that the National Security Council (NSC), under Sandy Berger in Clinton's second term, is assuming a more active role in defining the second Clinton Administration's China policy and there are signs that US policy

is moving further towards a *realpolitik* in which regional security and China's growing military strength are increasingly framing the debate. Berger has talked of the need for a "clear-eyed approach" to China "based on our national interest"⁶ despite critical ambiguities and various levels of contestation as to what such a concept might entail in the post-Cold-War world. This view also underestimates the extent to which US foreign policy has always been reliant upon an idealist dimension.⁷ Nevertheless, the second term has witnessed the consolidation of the 'comprehensive engagement' policy and the view that political change in China towards greater pluralism is likely to be a long-term process involving multilateral institutions, NGOs and the private sector rather than being forced upon China using outmoded, and state-centric, bilateral mechanisms.⁸ The new approach to China was confirmed in October 1995 when President Clinton and Jiang Zemin met in New York and agreed to schedule a series of summit-level meetings based on a continual dialogue between the two leaders. Clinton himself was anxious to move away from the image of Cold War summitry which tended to encapsulate the mood of China summits and to treat China in the same way as most other countries.⁹ This dialogical process has been further marked by major summits in Washington in October 1997 and in Beijing in June 1998.

⁶ T Lippmann, "Effect of Visit on Support of US-China Ties Awaited", *The Washington Post*, November 2, 1997.

⁷ Ruggie, *Interests, Identity, and American Foreign Policy* p.206. Lobbying support for US foreign policy has always been reliant on providing more than an economic rationale for engagement.

⁸ J Shinn, "The Risks of Engagement" in J Shinn (ed), *Weaving the Net: Conditional Engagement with China*, New York, Council on Foreign Relations Press, 1996, p.91.

⁹ *Ibid.*, p.90.

The Role of Congressional Forces

During the first and second Clinton Administrations, however, what has been termed a "horseshoe"¹⁰ alliance has emerged in the Congress and the wider US polity which objects to US engagement of China along both purely economic and *realpolitik* lines. This horseshoe circumnavigates the political centre to take in the Republican right and the Democratic left and is antithetical to an agenda symbolised by the political hegemony now enjoyed in Washington by the Treasury Department (which increasingly defines the policies of most other government bureaucracies) in coalition with US business, a broader class of investors, and their Congressional allies.¹¹ From the right, the neo-conservative, William Kristol, saw the issue of whether to renew China's MFN status as an opportunity to undermine the bipartisan status quo - "the object of attack must be both the Clinton Administration and the mandarins of the Republican foreign policy establishment."¹² From the left, it was seen as an opportunity, in House Minority Leader Richard Gephardt's words, "to link capitalism with values and standards."¹³ Both rightwing Republicans and leftwing Democrats were, in effect, repoliticising a relationship previously defined solely in terms of trade, stability and management while objecting to a pro-China lobby which these strange bedfellows, representing opposite poles of US political spectrum, "increasingly came to view as an unprincipled, mushy alliance of the Republican and Democratic party centres."¹⁴ These manifestations of dissent, unsurprisingly, have arisen in the more populist and democratic

¹⁰ This term was used during an interview with Douglas Paal, former Reagan advisor on China, and now Chairman of the Asia-Pacific Policy Centre. Interview, Washington DC., October 31, 1997.

¹¹ See "The Treasury v the People" *The Economist*, May 16, 1998.

¹² W Kristol, "Time for Insurrection", *The Weekly Standard*, March 10, 1997, pp.16-17.

¹³ Gephardt cited in S Pearlstein, "On Trade, US Retreating into Globophobia", *The Washington Post*, 8 December, 1997.

¹⁴ D Lampton, "China and Clinton's America in 1997: Have They learned Anything?", *Asian Survey*, Vol.37, No.12, 1998, p.1115.

House and represent an important new force in US-China relations and the wider redefinition of the US foreign policy debate. In certain senses, they must also be seen as challenging the 'inevitability thesis' expounded upon by Clinton with regard to economic globalisation. Underpinning such a backlash in the Congress, however, are forces rooted in US civil society which bring pressure upon their politicians for a new China policy. It is to civil society and non-state actors that we now turn.

US Labour and China Policy: A Plea for 'Fair Trade' or Back Door Protectionism?

The AFL-CIO has consistently opposed the renewal of China's MFN status and the Clinton Administration's policy, post-1994, of "comprehensive engagement." However, the AFL-CIO position is reflective of the organisation's own internal fissures and, thus, its stance rests on both insular and protectionist sentiments and values of international progressivism. These fissures were neatly illuminated in a statement made by the AFL-CIO Executive Council on the matter of US-China policy in 1996: "These companies" [those operating in China] "do not care about human rights abuses or prison labour - they make millions of dollars by exporting goods from the protected Chinese market to the United States using the cheapest and most exploitative labour resulting in record US trade budgets."¹⁵ The point at issue here is whether the AFL-CIO's overall strategy has been primarily based upon objections to "the protected Chinese market" or to "human rights abuses." Often the AFL-CIO has been broadly supportive of US managed-trade strategies, including quotas, and the Administration's attempts to liberalise the Chinese economy through the WTO - especially through the aggressive bilateral trade agenda of the USTR. In the words of the AFL-CIO's David Kameron, "diligent

¹⁵ D Kameron, "June Boycott of Chinese Goods Called : Unions Oppose Extension of Special Trade Status, AFL-CIO News, May 16, 1996 at <http://www.aflcio.org/newsonline/96may16/trade.html>.

monitoring and aggressive enforcement of all US trade agreements by the USTR are critical steps in the right direction."¹⁶

The AFL-CIO also presents a domestic agenda built upon the premise that US-China trade means the loss of US jobs. It has argued that every \$1 billion of the deficit with China leads to 20,000 job losses in the US. This line of attack has been largely protectionist calling for the raising of tariffs and the exclusion of exports made by the People's Liberation Army (PLA).¹⁷ In this sense, the AFL-CIO position can be conflated with that of business and the push for deregulation, market access and trade liberalisation. It forms a producer interest stressing the importance of jobs and wages, on the one hand, and profits and open markets, on the other. In both cases the trade deficit is seen as a consequence of 'protectionism' in China, rather than the structural factors outlined in Chapter 3 and the existence of huge US demand for Chinese exports. Thus, the AFL-CIO negates deeper changes in the global economy connected with a new international division of labour, in which US firms seek lower labour costs in economies such as China's. It also neglects the fact that US job losses emanate from the internal restructuring of the US economy away from low-value added products. In other words, US labour face the arduous task of repoliticising US-China labour issues in correlation with global economic shifts.

The globalisation of economic activity and the mobility of US capital entail the AFL-CIO moving beyond a narrow and short-term strategy to the point where it can effectively place US-China relations within a broader, more globally aware, context where Chinese economic conditions are viewed as the symptom of global trade standards rather than the underlying

¹⁶ D Kameras, "Trade Deficit Still Moving on Track For Record Red Ink", AFL-CIO News, February 16, 1996, at <http://www.aflcioonline/96feb16/trade.html>.

cause of domestic inequities. Barbara Shailor, of the AFL-CIO's International Affairs Department, has set out a strategy more apposite to the current conjuncture of global capital/labour relations and less inclined simply to bolster nationalist or protectionist sentiments. Firstly, Shailor makes clear that, "if working people are to have any response to globalisation - other than as horrified observers and victims, our first job is to strengthen ourselves at home." Secondly, she posits the fundamental question: "who is doing the globalising?" Shailor goes on to affirm that "the champions of globalisation are the captains of American industry", meaning that "we must literally follow the Boeings, GEs and ATTs to their outpost around the globe." This involves a willingness to "commit to cross-border organising" in order to work towards "multinational codes of conduct" which define the abuse of "basic worker rights" as "the unfair trading practice that it is."¹⁸ Put simply, deregulation of economic activity tends to boost productivity, especially in low-value-added sectors, despite the social costs which accompany any diminution of workers' rights. The global regulation of labour standards, through the WTO or the International Labour Organisation (ILO), would be the alternative to this.

The AFL-CIO position offers a valuable corrective to the 'capitalism equals greater democracy' arguments propounded by the Clinton Administration. Indeed, Phil Fishman of the AFL-CIO has directly challenged the notion that foreign business involvement is spawning democracy, highlighting, rather, the complicity of foreign firms in subjugating workers. During a 1994 debate on MFN Fishman alleged that 62% of Chinese workers employed by foreign companies work "seven days a week without time off". Of 15,000 workers surveyed in China

¹⁷ A Abrash (ed), *China and MFN Trade Status: A Public Hearing Featuring US Government, Academia, and Human Rights representatives: Summary and Findings*, Washington College of Law, American University, Washington DC., May 20, 1994, p.14.

¹⁸ Barbara Shailor, Director of AFL-CIO International Affairs Department, "Remarks before the International Association of Machinists and Aerospace Workers", at <http://www.iamaw.org/aboutiam/Speech7.htm>.

42% were working for ten hours per day and two thirds were being paid less than they had been working in their home regions for state-owned firms.¹⁹

The AFL-CIO has also forged important alliances within Congress and within the US government which have served to place US-China relations within a social context. In the fight against child labour in China and the developing world, Democrat Senator, Tom Harkin, introduced a Child Labour Deterrence Act which would have strongly curbed certain Chinese imports, except that the bill was rejected by Congress.²⁰ The AFL-CIO- backed Child Labour Coalition has won support from international groups such as the South Asian Coalition on Child Servitude illuminating the importance of forming cross-border coalitions in influencing the actions of governments under conditions of globalisation. Meanwhile, important links were forged with former Clinton Labour Secretary, Robert Reich, who presided over an influential report on child labour.²¹ A campaign against Wal-Mart's importing of toys allegedly made by Chinese child labour also witnessed Department of Labour support for AFL-CIO activity during Reich's tenure at the Department and continued into the second Clinton Administration. Reich stated that "consumers will reward the national chains that are doing their very best to attack the problem." The Department also published a list of retailers and manufacturers committed to wiping out garment sweatshops, entitled *Trend-Setters*, and designed to give the US consumer the information needed to make an ethical choice.²²

Cynically, we may view such campaigns as neo-protectionist, but this would undermine the very real political efforts being made to establish global labour standards among certain

¹⁹ A Abrash (ed), *China and MFN Trade Status*, p.14.

²⁰ S Shirk, *How China Opened its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, Brookings Institution, Washington D.C., 1994, pp. 84 - 85.

²¹ "By the Sweat and Toil of Children: The Use of Child Labour in US Agricultural Imports and Forced and Bonded Labour," US Department of Labour, Washington D.C., 1995.

sections of the AFL-CIO, the Congress, and in the US government. US idealism is not entirely moribund and a strong current of anti-corporate sentiment, if channelled properly, has been taken beyond debates over China's MFN status and concomitant issue-oriented debates and towards a serious movement for a new global compact on labour standards.

The Human Rights Lobby

The campaigns for various human rights related causes in China bear all the hallmarks of the pluralistic nature of the US system with certain lobbies, notably the Christian Coalition, selecting issues for ideological purposes more pertinent to domestic social, political and cultural divides. In turn, a broad coalition against the Clinton Administration's China policy which tends to place business interests above human rights will be difficult to sustain in the long term without an overarching political riposte to global neo-liberalism which connects the infringement of human rights and rising social inequality in China with the spread of a certain brand of unrestrained capitalism. However, we argue that such forces do serve to politicise and socialise a relationship often approached with little regard to its human context.

Firstly, there exists the traditionally left-leaning or liberal human rights constituency which protests the infringement of individual liberties but also decries the economic logic which facilitates and implicitly encourages such abuses by placing the priorities of US firms and their profits above China's human rights record. This position is spelled out by Human Rights Watch Asia's Washington Director, Mike Jendrzeczyk, who asserts that, "when it comes to moving China to respect its international human rights obligations, the Administration has yet to develop a credible and effective strategy, analogous to its stance on intellectual property

²² M Cooper, "Unions Add Justice to Shopping List", *AFL-CIO News*, December 1, 1995, at <http://www.aflcio.org/newsonline/95dec1/walmart.html>.

rights and the use of the threat of sanctions to obtain results."²³ It is worth briefly elaborating on Jendrzeczyk's criticisms. The Administration has made great play of the fact that its adversaries advocate protectionist policies and yet, as we saw in chapter 3, it has itself resorted to protectionist measures with great enthusiasm when dealing with China on trade matters. The reason for this is that China is still outside the World Trade Organisation (WTO) and no recourse to multilateral arbitration is sought over bilateral disputes. With China inside a WTO and subject to social regulation a whole raft of issues from human rights standards to quotas could be subjected to multilateral scrutiny, thereby removing the threat of unilateral protectionism and drawing China closer to acceptable behaviour.

The NGO lobby has supporters within the State Department which collates information from groups such as Amnesty International to deliver its yearly assessment of China's human rights record which has been consistently deemed unsatisfactory and has itself spurred on the activities of human rights advocates. In 1994, the year the Administration delinked human rights and trade, a State Department human rights report bluntly confirmed "widespread and well-documented human rights abuses in China, in violation of internationally accepted norms."²⁴ Indeed, John Shattuck, head of the State Department's Bureau of Human Rights, Democracy, and Labour is former Director of Amnesty International (USA) and much of the argument for the adoption of a more ethical stance has come from an alliance between the Bureau and human rights NGOs.²⁵

²³ Jendrzeczyk cited in M Wan "Human Rights and Sino-US Relations: Policies and Changing Realities" *The Pacific Review*, Vol.10, No.2, 1997, p.245.

²⁴ US Department of State, *China: Human Rights Practices, 1994*, Washington DC, 1995.

²⁵ At an interview at the State Department's Bureau of Human Rights, Democracy, and Labour it was made clear that an "open door" relationship exists between the Bureau and NGOs. Interview conducted November 1997.

One of the main problems, however, for human rights NGOs concerned with China is their lack of a clear strategy. They seem to be unsure whether to highlight the plight of individual dissidents, such as Wei Jingsheng or Wang Dan²⁶, at the expense of broader socio-economic problems flowing from development in China today. This forms part of a broader difficulty on the American left with formulating an overarching critique of neo-liberal economics. Often, the fact that the Clinton Administration is perceived as being culturally liberal masks the extent to which trade liberalisation has become an uncontested dogma with its most convinced supporters unwilling to countenance the fact that reforms in China have been socialised in such a way as to undercut basic social and economic rights while passing on the deleterious effects to China's poor. The focus upon individual human rights cases has tended to mean overwhelming time and resources being concentrated upon dissident intellectuals while failing to offer serious insights into broader social polarisations and mass inequalities engendered by the type of economic reforms encouraged, quite explicitly (see Chapter 3), by the US government.

A serious logistical problem stems from the fact that Western-type NGOs are relatively non-existent in China or exist only if they renounce political activity. This is compounded by the fact that China's own NGOs, like the Trade Unions, have been subsumed into the state structure. China is also anomalous in the sense that, as yet, no civil society really exists in an oppositional sense which works to impede the growth of human rights groups on the ground acting in synergy with US and other Western NGOs in a systematic fashion.²⁷

²⁶ These high profile cases came to a head when both Wang Dan and Wei Jingsheng were detained prior to a visit to Beijing by Warren Christopher in 1994. See Wan, *Human Rights and Sino-US Relations*, p.240. In 1997 Wei Jingsheng was released prior to the October US-China summit and now lives in the US where he continues to campaign against the Jiang regime.

²⁷ Some of these ideas were extrapolated from conversations with human rights activists in Washington DC and their frank admission that China presents a number of unique and vexing problems due to its closed political structure.

In terms of human rights strategy and the policies of the US government, there seems to be a grudging acceptance by both politicians and activists that the US cannot exert moral, or any other, power over China in the same way it can with, for example, Burma or Indonesia. As Emmerson notes, Burma's isolation from the world economy (Burma and the US have a meagre \$50 million worth of two-way trade) has been a key factor in the US's sustained *moralpolitik* approach to that country which culminated in sustained sanctions in 1992-93. For him, "Burma did not matter compared with Clinton's domestic agenda or America's relations with more important countries" and, thus, "responsibility for US policy towards Burma could, in effect, be delegated to the human rights lobbies and their patrons in Congress."²⁸ Similarly, Indonesia was subject to sanctions and a vigorous Asia Watch and Amnesty International lobbying campaign in 1992-93 in which democracy and human rights criteria outweighed those of economic relations.²⁹ Though the advent of a Republican Congress in 1994 enhanced business interests (encouraging Clinton to delink human rights and economic policy), China is, in any case, so large a country with such specific and complex problems that the Clinton Administration has been unwilling to delegate to Congress or human rights lobbies in framing overall policy. As again Emmerson notes, the administration "failed to see how punishing China for its crackdown on dissidents could help make this vast, dynamic, and politically dangerous state a cooperative partner for East Asian security and prosperity."³⁰ As we saw in chapter 3, broad engagement with China and the myriad interlinkages which attenuate globalisation have been viewed as tempering China's domestic human rights situation and civilising the regime. That said, human rights lobbies continue to hold great sway

²⁸ DK Emmerson, "US Policy Themes in Southeast Asia in the 1990s", in D Wurfel and B Burton (eds), *Southeast Asia in the new World Order: The Political Economy of a Dynamic Region*, New York, Macmillan, 1996, p.118.

²⁹ *Ibid.*, p.119.

³⁰ *Ibid.*, p.121.

and the Administration can ill afford to ignore entirely the *moralpolitik* constituency in the Democratic Party and beyond. Emerson further points out that such acknowledgement of ethical/moral interests is all part of the foreign policy symbolism which has long defined the US role in the world. For him, "policies meant to punish undemocratic regimes do not have to succeed abroad to be domestically successful. To denounce evil is to feel good; actually doing good as well need not occur."³¹

Diane Mauzy suggests that a particular source of controversy in China and other Asian states is the apparent willingness of the US government to encourage anti-government sentiments or what is sometimes termed 'constructive instability' at the behest of domestic lobbies. The view that a transition from 'bad' to 'good' government can be induced by encouraging internal dissent is, moreover, highly unpopular among other Asian states worried about their own authoritarian rule and the rise of genuine democracy movements.³² As we pointed out in chapter 3, the basic contradiction of US foreign policy towards China is rooted in retaining the balance between supporting China's stability and integration with the global economy and promoting immediate economic and social concerns emanating from within the US political system. Thus there are limits to democracy promotion just as there are limits to trade liberalisation and, so far, the Clinton Administration has managed to maintain a long-term view and to resist the often impossible demands of human rights lobbies while keeping the issue of human rights firmly on the table in bilateral meetings.

³¹ *Ibid.* , p.118.

³² D K Mauzy, "The Human Rights and 'Asian Values' debate in Southeast Asia", *The Pacific Review*, Vol.10, No.2, 1997, p.214.

The Far Right China Lobby

The US far right's agenda on China has, broadly speaking, been ideological and nationalist, viewing China as the next Soviet Union and a pernicious global force to be contained economically and territorially - what one former Bush official called a case of "enemy envy."³³ This constituency, rooted on the Republican right, has identified human rights as an ideological weapon to assert US moral supremacy. It supports punitive action in the trade sphere combined with a raft of Congressional legislation on China's human rights record especially where it involves the violation of religious (usually Christian) rights. This lobby also lambasts China's one-child policy which infringes upon the Christian Right's radical anti-abortion stance and, in so doing, elucidates the highly selective nature of the far right's internationalism..

In 1997 several right-wing Senators formed the Senate Religious Persecution Task Force which has given considerable attention to clamp-downs on Protestant and Catholic communities in China.³⁴ In case we underestimate the force of these single issues peculiar to the US system, it is worthy of note that, in 1996, 120 members of Congress were estimated to have voted against China upon almost all issues due to the Beijing government's stance on abortion, thereby proving that Christian fundamentalism, as a very real US cultural force, does not stop at the water's edge.³⁵ In 1994, for instance, right-wing Senator Jack Kemp introduced an amendment blocking US contributions to the US Agency for International Development so long as it supported the United Nations Family Planning Agency (UNFPA) and its work on population control in developing countries such as China. In 1995 Republican

³³ Interview with D Paal, Asia-Pacific Policy Centre, Washington DC, 31 October, 1997.

³⁴ K Dumbaugh, "Religious Practices in China", *CRS Report for Congress, 97-882R*, Congressional Research Service, Library of Congress, Washington D.C., p.4.

Sam Gejdenson cited China's blocking of the National Endowment for Democracy's (NED's) Voice of America (VOA) as a reason for withdrawing MFN in the belief that, until China becomes fully Americanised, it remains a potential enemy - "a country that violates the most basic rights of its citizens is likely to ignore its treaty obligations and to have precious little concern for maintaining peaceful relations with its neighbours."³⁶ Such anti-Chinese sentiments are compounded by the fact that powerful members of the Taiwan lobby in Congress assumed influential positions in the House and the Senate following the Republican landslide of 1994. Jesse Helms became chairman of the Senate Foreign Relations Committee and Benjamin Gilman became Chairman of the House Foreign Affairs Committee. Both men were renowned for their pro-Taiwanese sentiments, stemming from their ties with Taiwanese business interests and their unreconstructed Cold War ideologies.

House Speaker Newt Gingrich further raised the political stakes when, in 1995, he called for the re-establishment of diplomatic ties with Taiwan, thereby undercutting a twenty-year consensus on the efficacy of a "one China" policy.³⁷ In November 1997 Republicans launched a further "Policy for Freedom" which involved the introduction of nine bills in Congress to "promote and maintain friendly cultural ties with a free China" and to offer an alternative to the Clinton Administration's "carrots only" approach. The bills included such measures as the expansion of Radio Free Asia, several pro-Taiwanese measures (including Taiwan's admission to the WTO before China) and voting against World Bank subsidies for Chinese industries in the state sector.³⁸ This Reaganite constituency seeks an ideological and

³⁵ K Lieberthal "Domestic Forces and Sino-US Relations", in E Vogel (ed), *Living with China: US-China Relations in the Twenty-first Century*, WW Norton and Company, New York, 1997, p.260.

³⁶ "China, Human Rights and MFN", statements before the House of Representatives, Committee on Foreign Affairs, 24 March 1994, US Government Printing Office, Library of Congress, Washington DC, 1994.

³⁷ Q Zhao, *Interpreting Chinese Foreign Policy*, New York, Oxford University Press, 1996, p.219.

³⁸ J Pomfret, "Congress vs China", *The Washington Post*, October 31, 1997.

unilateral US foreign policy aggressively promoting US values and interests which correlate with the agendas of Christian fundamentalism and right-wing nationalism. In sum, in the jaundiced mindset of the parochial far right China is clearly and passionately viewed as the new Soviet Union and a cultural, economic, and military threat to American values and unfettered free markets.

US-Based Chinese Dissident Groups

The US has a long tradition of championing individual dissidents - a tactic used to contrast US civil liberties with Communist totalitarianism during the 1945-89 period. Many NGOs (see above) have tended to focus upon individual cases of oppression at the expense of deeper structural factors and, thus, have obfuscated the full complexity of what constitutes freedom - particularly in developing countries with more collective traditions and values. Thus Chinese dissident groups in the US, or what Baogang labels Overseas Opposition Movements (OOMs), represent a hybrid social force in terms of articulating Chinese political aspirations within a liberal and plural political culture. They represent both a US and Chinese socio-political force lobbying the US Congress whilst also forging links in their homeland. For Baogang, such groups "reflect the process of political globalisation" in which OOMs are "incorporated into a transnational civil society" taking "China's politics beyond the national boundary."³⁹ Indeed, it reflects the diaspora of global Chinese networks which influence socially, politically, and economically China's modernisation and which, despite differences with Beijing, are part of a new class which is often affluent, mobile, and globally oriented.

The US political establishment is less enthusiastic about championing political dissidents since the announcement of the 1994 'comprehensive engagement' policy given the primacy of

³⁹ H Baogang, "Chinese Political Opposition in Exile" in G Rodan (ed) *Political Oppositions in Industrialising Asia*, London, Routledge, 1996, p.209.

maintaining a sizeable share of China's market and a smooth relationship with the Jiang leadership. Thus US-based OOMs are forced more than ever to function within US civil society (as opposed to being paraded by the State Department as symbols of US political freedom as with Andrei Sakharov), principally by forging linkages and alliances with like-minded groups. The need for linkages in civil society means that patriotic OOMs committed to a unified China are having to interact with groups committed to Tibetan independence or Taiwanese groups seeking international recognition for their island independent of the PRC. All of this results in the formation of highly unusual coalitions. However, the elitist structure and nationalist persuasions of such groups as the Front for a Democratic China (FDC), the Chinese Alliance for Democracy (CAD) and the Chinese Liberal Democratic Party (CLDP), which talk of a "Great China" and which appeal to the patriotic elements among overseas Chinese, entails a very narrow conception of democracy. Such groups seek to create "fair competition at the top layer of the hierarchy" in China's government with "mass participation" something of a "side issue." As Chan puts it, the prevalent image of Chinese dissidents as champions of democracy are often a "western media created image." Many student/intellectual groups wish to "cordon themselves off from ordinary people, so that their elite...movement is not .. contaminated."⁴⁰ For Chan, "one has yet to find a faction among them that openly advocates universal suffrage, though much homage is paid to the abstract idea of democracy."⁴¹

Such groups have also come to reflect the fractious pluralism of the US political system and their agendas have tended to correlate with the wishes of their financial backers.⁴² Both the

⁴⁰ A Chan, "China: the Changing Ruling Elite" in Rodan (ed), *Political Oppositions in Industrialising Asia* , p.179.

⁴¹ *Ibid.* , p.180.

⁴² *Ibid.* , p.192.

governments of Taiwan and of the mainland have attempted to win the loyalty of overseas Chinese in their quest for legitimacy.⁴³ Newspapers printed in the US, such as the *China Press*, have played an important role in disseminating pro-Beijing information, while the *World Journal* takes a pro-Taiwanese line whilst also attracting those Chinese mainlanders supporting greater democracy.⁴⁴

In short, the US political process has, in a sense, exposed the differences between elitist and technocratic groups, such as FDC, CAD, and the CLDP, and the agenda of groups like Human Rights in China (HRIC), which is a non-profit and independent organisation committed to highlighting and documenting generic human rights abuses in China. HRIC lobbies Congress in conjunction with Western groups such as Amnesty International and Human Rights Watch/Asia and is less motivated by assuming power in China, following the demise of the CCP, than with publicising the human cost of a one-party authoritarian state which it believes to be bolstered by the current US policy of "comprehensive engagement."⁴⁵

US Human Rights Campaigns For Minority/Religious Rights in China

The championing of religious and cultural freedoms in China, campaigns involving both the left and the religious right as well as dissident groups in the US, has been channelled most publicly through the issue of Tibet and the Chinese suppression of Tibetan Buddhist religion and culture.⁴⁶ Though often seen as marginal issues to those used to studying parliamentary democracies or centralised foreign policy making, minority issues, or what we could even

⁴³ C Yu-hsi, "The Dual Role of the Chinese Press in the United States", *Bulletin of Concerned Asian Scholars*, Vol.27, No.1, 1995, p.43.

⁴⁴ *Ibid.*, pp.40-41.

⁴⁵ *Ibid.*, p.191.

⁴⁶ The role of Hollywood as a political/social force here cannot be downplayed, Martin Scorsese's *Kundun* being one example of a film which has been critical of China and illuminated the plight of Tibet. Interestingly, the corporate makers of the film, sensitive to their interests in China, reneged on the promotional activities

term postmodern identity issues, have played and still do play a large *political* role in mobilising US public opinion and Congressional action. This must be attributed, at least partially, to the fact that the US is a multi-ethnic state and projects values of tolerance and integration beyond its borders in order to reflect this fact.

Tibet has undoubtedly suffered greatly at the hands of China's leaders for over 50 years and Tibet's culture is viewed by technocratic elites in Beijing as increasingly anachronistic in the light of capitalist reforms. According to Human Rights Watch/Asia, 80% of China's political prisoners were Tibetan in 1993. The official stance of the US Administration has been to insist that any settlement of this highly complex issue must result from compromises between the Dalai Lama and Beijing. However, many US supporters of Tibet favour the position of Tibetan exiles in India who have been campaigning for independence and secession from China in contrast to the Dalai Lama's call for moderation and negotiations with view to attaining cultural autonomy within the context of continued Chinese sovereignty.⁴⁷ Right-wing Republicans such as Jesse Helms have joined with US groups, such as the Washington-based Campaign for Tibet, in pressuring the Administration to recognise Tibetan aspirations. In July 1997 Secretary of State, Madelaine Albright, announced the appointment of a "special co-ordinator" for Tibet following moves in the Congress with considerable support to legislate for an envoy to Tibet - a move likely to inflame US-China relations.⁴⁸ The Republican Congress has increasingly come to view issues like Tibet as key sources of leverage over both China and the Clinton Administration, while the Administration itself has viewed the appointment of a Special Co-ordinator as likely to defuse more radical demands on human rights issues.

which accompany all major Hollywood films. Buddhism is currently extremely popular in the US and, along with Tibetan exiles, helps to form a highly vocal lobby.

⁴⁷ M Oksenberg, "Taiwan, Tibet and Hong Kong in Sino-American Relations" in E Vogel (ed), *Living With China: US-China Relations in the Twenty-First Century*, New York, WW Norton, 1997, p. 85.

⁴⁸ T Carter, "US to name Tibet Liaison, Albright Says", *Washington Times*, July 31, 1997.

Neo-liberals have moved to discredit such coalitions as have the *realpolitik* advocates of the foreign policy establishment in the belief, which has some merit, that minority issues cannot be allowed to dictate or obfuscate the overall priority of stable relations with China.⁴⁹ However, campaigns on behalf of religious rights and minority rights do serve the crucial purpose of refocussing the debate on the human cost of putting economics first. This point was clearly demonstrated when, in the early 1990s, Chinese authorities launched an initiative against the Tibetan independence movement called "Cutting off the Serpent's Head" (the metaphorical snake being Tibetan activists). This initiative included a clamp-down on all protests (both economic and political), restrictions on the spread of Buddhism and the display of religious artefacts, destroying the religious and political standing of the Dalai Lama, and, most cynically, a policy of high speed economic growth intended to encourage a greater influx of Han Chinese migrant workers and entrepreneurs. Like the native Americans of the nineteenth century, Tibetan culture is viewed as an ideational, as much as physical, threat to the ideas of scientific and rational progress. China's reform programme for Tibet bears all the hall-marks of a postcolonial legacy in which the growth of industry and technology, though crucial to overall development, is allowed to efface or destroy alternative social models and identities while denying Tibetans a legitimate forum for dialogue.⁵⁰ Given the fact that modern US society is particularly sensitive to cultural pluralism and that US foreign policy has long sought to safeguard persecuted minorities as part of its, admittedly paradoxical, anti-imperialist tradition it is no surprise that China's actions in Tibet have induced political protest.

⁴⁹ The head of the China desk at the State Department jokingly dismissed the Tibet lobby as a "growth industry" and called human rights reports "snapshots which don't really give us a perspective on what is really happening." Remarks made by Director of State Department China Desk, at the School of Advanced International Studies, John Hopkins University, Washington DC, 12 November, 1997.

⁵⁰ See Human Rights Watch/Asia Report, "Cutting Off the Serpent's Head: The Cost of Putting Business First", Washington DC, 1997.

The Uighurs of East Turkistan have also faced attacks upon their culture and environment, a fact which has, thus far, received little recognition in the wider world probably due to the vogue for Buddhism currently sweeping the USA which ensures higher profile coverage for Tibet. Nevertheless, policies of forced abortion and Han Chinese migration are serving to alienate the people of this, one of China's poorest, regions. Natural resources (including oil, coal, and minerals) are being siphoned out of the region to help fuel economic growth in China's Southern and coastal regions, leaving East Turkistan's people, both politically and materially, at the mercy of a central government more interested in placating the new business culture. According to Anwar Yusef of the US-based East Turkistan Centre, the region is also being used for environmental dumping and nuclear tests in the knowledge that the population has little means of legal or political recourse.⁵¹

Human Rights Watch/Asia has also noted that, in April 1996, China's government launched a "Strike Hard Against Crime" campaign, ostensibly to combat violent gangs and drug syndicates. It is claimed, however, that this was largely a ruse to disguise a harsh crackdown on all forms of dissent and opposition to Beijing control, particularly among ethnic and religious groups.⁵² Particularly hard hit were Muslim separatists who have, between 1995-97, become more active, organised, and violent and who have sizeable populations in Xinjiang, Ningxia, and Yunnan provinces in north-eastern China.⁵³ This is, of course, a complex political issue given the precedent of the former Soviet Union where the US supported Islamic separatists only to be faced with repressive anti-Western theocracies following the break up of the Soviet empire. Moreover, it is quite possible that any diminution in China's control over its provinces could be replaced with more virulent forms of authoritarianism and leaderships less

⁵¹ Huschle -Delobel (ed), *Focus on China*, pp. 18-19.

⁵² Human Rights Watch/Asia, *The Cost of Putting Business First*.

open to the world than China's reforming government which is, at least to some extent, bound by international law.

The China Business Lobby: A Social Movement For Global Capitalism

US transnationals share few of the scruples afflicting US labour and human rights groups nor many of their ambiguities in terms of strategy. Transnationals represent what Sklair terms a "social movement for global capitalism" operating *via* "elite social movement organisations" (ESMOs) made up, in Sklair's schema, of "TNC executives, globalising bureaucrats, globalising politicians and professionals, and consumerist elites (merchants and the media.)" As Sklair further notes, ESMOs are the "peak business associations and organisations that connect business with other spheres (government, global politics, social issues, etc)."⁵⁴ Certainly, the private social forces diffusing the business agenda in US-China relations display just such characteristics and have fostered an array of interlinkages with the Administration and the broader political process.⁵⁵

A certain single-mindedness has kept the incessant agenda of US multinationals in China at the forefront of the policy debate and has been characterised by the forging of close links with the trade lobby in both the Democratic and Republican Party. The business lobby is characterised by tight-knit organisational structures differing in important respects from the human rights-NGO lobbies which traverse the spectrum of US politics and can find little common ground on which to fashion a coherent response to the agenda of transnational capital. *The Economist*

⁵³ Dumbaugh, *China's Treatment of Religious Practices*, p.7.

⁵⁴ L Sklair, "Social Movements For Global Capitalism: the Transnational Capitalist Class in Action", *Review of International Political Economy*, Vol.4, No.3, 1997, pp.524-525.

⁵⁵ The Clinton Administration's China strategy for 1998, for instance, was announced before the Asia Society which is primarily an elite grouping of businessmen and Washington foreign policy establishment insiders. During the address Assistant Secretary of State for East Asia and the Pacific, Stanley Roth, stated that the Administration's aim for 1998 is that "China plays by the rules enough so as not to disrupt trade and FDI."

summed this up neatly when appraising the role of the US-China Business Council which represents over 300 US companies claiming a stake in the China market: "its rivals are too often divided to be effective. Human Rights groups and the religious right are a world apart on most issues; so are the trade unionists and right wing anti-Communists....even though the anti-China brigades make a lot of noise, they do not usually manage to win critical votes in Congress."⁵⁶

The US-China Business Council played a key role in mobilising pro-China and pro-free trade sentiments during the MFN-Human Rights debate of 1994 in which the Clinton Administration changed policy direction. A similar role was played by the Emergency Committee for American Trade (ECAT) which represents 55 large US corporations with world-wide sales of \$1 trillion.⁵⁷ Nearly 300 corporate leaders from companies which exported \$7.5 billion to China in 1992 sent an open letter to the Clinton Administration which claimed that "withdrawing or placing further conditions on MFN" could "terminate the large political benefits of the trading relationship."⁵⁸

The Jiang-Clinton Summit of October 1997 was, notably, dominated by business figures invited to informal White House dinners in order to secure new deals with the Chinese government.⁵⁹ Again, China's leaders attempted to display their new economic power by announcing, during Jiang's summit visit, that the government would procure 50 Boeing

Stanley Roth, *The Asia Strategy for the Second Clinton Administration*, Speech before Asia Society, US Department of State, 12 December, 1997.

⁵⁶ "How America Sees China", *The Economist*, October 25, 1997.

⁵⁷ See D Lampton, "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage", *The China Quarterly*, 139, 1994, p.605.

⁵⁸ R Bernstein and R Dicker, "Debating China: Human Rights First", *Foreign Policy*, No.44, 1994, p.44.

⁵⁹ The point was made to me by a prominent NGO human rights lobbyist that if one wished to truly decipher which groups were exerting most influence over China policy one only had to look at the guest list for the US-China Summit official dinner which was dominated by representatives of corporate America.

airplanes at the cost of \$3 billion.⁶⁰ Such gestures seem to be enough, in the current climate, to assuage both the Administration and US business of China's long-term value in global economic terms. Proactive political measures designed to influence China's behaviour are to be confined, by the US government, to WTO negotiations and bilateral trade sanctions within an overall context of dialogue (see chapter 3).

Key political figures, now betrothed to the private sector, are personal recipients of lobby cash, as was well documented by an article in the right-wing, though populist, *Washington Times* in May 1997. Henry Kissinger and Alexander Haig, traditionally pro-Chinese figures, were reported as playing major roles in the lobbying world. Kissinger's political consultancy has included offering services to The American International Group (AIG). This insurance giant was instrumental in setting up the Business Coalition for US-China Trade with the former targeting some of its \$26 billion in resources towards funding this multi-million dollar lobbying group which includes many of America's corporate giants including Boeing, Motorola, General Motors, General Electric and IBM among its number. As noted in chapter 3, the AIG was the first insurance group which has been allowed to sell services in the China market, opening offices in Shanghai. For his part, Alexander Haig has played a major role in securing Joint Venture contracts for United Technologies in China while also functioning as a syndicated news columnist usually writing pro-Chinese columns. On Capitol Hill the law firm Jones Day Reavis and Pogue, registered as the Chinese Embassy's foreign agent, has given \$108,168 to candidates in both parties; Dorsey and Whitney, a Washington firm representing the Chinese chamber of Commerce, has given \$56,263 and Hogan and Hartson, representing the US-China Business Council, has given a total of \$339, 824 to candidates in both parties.⁶¹

⁶⁰ L W Pye, "The United States and Asia in 1997", *Asian Survey*, Vol.38, No.1, 1998, p.104.

⁶¹ G Archibald, "Big Deals in Beijing Bring Billions to US: Famous Names Well Paid to Support China", *Washington Times*, March 25, 1997.

An added twist to the influence of economic interests on the Administration's policy, and indicative of the transnational nature of politicking in the 1990s, came in 1997 when allegations were made that Chinese sources had helped fund Clinton's re-election campaign for the presidency in 1996 in return, presumably, for a more pro-Chinese foreign policy and the further dilution of human rights commitments.⁶² In 1997 six corporations launched a \$750,000 per year public relations campaign to boost China's image through the Internet, schools, and community organisations. It was set up by Edelman Public Relations World-Wide and also involved the inauguration of an Education Foundation promoting US firms dealing with China.⁶³

The effectiveness of such campaigns are hard to measure but illuminate the fact that large corporations which have the financial muscle to project their message onto screens across the US at leisure. Moreover, the pro-China lobby representing private business and corporate America has made it clear that it is not well disposed to any regulatory restrictions on the conduct of US firms operating in the China market. They were supported by the Administration which opposed a Bill in Congress based on the Sullivan Principles laying down a code of conduct for US firms operating in South Africa during the 1980s.⁶⁴ In 1995, moreover, the Administration pledged itself to an "honour code of conduct" for US firms operating in China, but then proceeded to hollow out this commitment by making the code voluntary and thus acceptable to the business community as an empty and symbolic gesture unlikely to be taken up in practice. Nor was the latest proposal given any logistical support

⁶² Lampton, "China and Clinton's America", p.1116.

⁶³ Archibald, "Big Deals in Beijing".

⁶⁴ Bernstein and Dicker, "Human Rights First", p.47.

from the Commerce Department, the diplomatic missions of which often secure key business contracts.⁶⁵

Promoting Civil Society in China

President Clinton's overall structural synthesis of America's role in the world following the end of the Cold War was essentially one of hard-nosed economic realism. It was always bound to sit rather uneasily with Anthony Lake's espousal of "democratic enlargement" as central to US foreign policy and particularly applicable to China as the last major bastion of Communist ideology, however diluted in form. Yet perhaps we are missing the point here as well as underestimating the sophistication of US strategy. There was, and is, an unacknowledged symbiosis between the two duelling priorities whereby the pursuit of neo-liberal economic goals is veiled by the rhetoric of human rights and democracy promotion. As Brinkley notes, "as a politically viable concept, democratic enlargement had to be aimed at primary US strategic and economic interests."⁶⁶ Authoritarian political structures have increasingly come to be viewed as anachronistic by neo-liberals due to the intensity and scope of information flows necessary to facilitate global markets as well as what Robinson calls the "expansive social intercourse associated with the global economy."⁶⁷ With financial stability and the confidence of investors paramount in safeguarding dominant US interests world wide, the prospects of political instability associated with repressive regimes are now viewed as threatening the global financial system. An adjunct of this concern with authoritarian governments is concern with the potential activities of radical disenfranchised groups at the margins of the new global economy who may infringe upon its smooth functioning by asserting

⁶⁵ Wan, "Human Rights and Sino-US Relations", p.243.

⁶⁶ D Brinkley, "Democratic Enlargement: The Clinton Doctrine" *Foreign Policy*, No.106, 1997, p.116.

⁶⁷ WI Robinson, *Promoting Polyarchy: Globalization, US Intervention, and Hegemony*, Cambridge, Cambridge University Press, 1996 p.38.

popular control over their social and economic environment. Thus the US has sought to encourage the emergence of "low intensity"⁶⁸ democratic institutions and structures which both neutralise radical forces extant in civil society and defuse the push to assert local democracy and autonomy or to reverse market inequities through state intervention, but which, equally, disavow arbitrary one party government. Such "polyarchical" structures "lead to political disaggregation and apathy, rather than authoritarianism, which can lead to political aggregation and mobilisation against visible targets such as dictatorships."⁶⁹ It is in this vein that, in April 1997, former Assistant Secretary of State for East Asian and Pacific Affairs, Jeff Bader, emphasised US support for new criminal and civil laws enacted by China's government, as well as rural village elections and increased freedom of movement, travel, and access to information, while, at the same time, framing overall US policy in terms of the need for China's stability.⁷⁰ A certain degree of power diffusion enhances capital accumulation processes and allows legal recourse for consumers and those in ownership of economic resources. However, popular democratisation would threaten vested interests and would probably also contain an agenda of economic redistribution and social justice.

The goal here, and we must not lose sight of this, is to compound and extend the scope of pro-capitalist (not necessarily liberal or democratic) institutional forms which, in turn, require a degree of popular legitimacy in order to function - they especially require an element of freedom for the economically empowered most likely to determine their fate. We argue, however, that China represents an anomaly where the strategy of augmenting this brand of

⁶⁸ See B Gills, J Rocamora and R Wilson (eds), *Low Intensity Democracy*, London, Pluto Press, 1993. The term "low intensity democracy" denotes the existence of formal democratic structures which grant legal and civil rights (in theory) but which fail to redistribute economic and social power.

⁶⁹ Robinson, *Promoting Polyarchy*, p.378.

⁷⁰ J Bader, "Statement Before the House International relations Committee, Subcommittee on East Asian and Pacific Affairs: Sino-American Relations and US Policy Options", US Department of State Press Release, 23 April, 1997, at <http://www.state.gov/www/regions/eap/>.

democracy is concerned in that there has been a relative lack of fluidity in the Chinese *political* situation since the end of the Cold War, certainly by contrast with Eastern Europe. Thus we see, in a more polarised manner than normal, the Clinton Administration's clear decision to opt for open markets over democracy and to placate corporate actors rather than human rights NGOs, the labour unions or anti-communists. For Hughes, this serves to highlight the fact that, "if there are priorities for Washington, they are increasingly presented in terms of promoting liberal economics rather than liberal politics" in China.⁷¹ Authoritarianism, then, is still deemed preferable to a transition to democracy likely to engender market instability and to threaten shareholder interests, though, as noted above, the situation in China is extremely complex and a hasty move to democracy could, quite conceivably, create unnecessary social cleavages.

The Nature of the Capitalist/State Hegemony in China

The US has attempted to foster civil societies in the developing world which will act as counterweights to the state and complement the Clinton Administration's push for trade liberalisation by freeing capital from regulation and bureaucratic forces. This is often achieved through the structural adjustment packages (SAPs) of the World Bank and IMF. However, this simplistic state/society dichotomy is misleading for it ignores "the balance of power relations within civil society, within the state and between the state and civil society."⁷² In short, the neo-liberal view denies that non-Western countries have a social structure at all, leaving them no room for state policies designed to forge a social compromise or provide social protection - no Western society would contemplate following a purely neo-liberal

⁷¹ C Hughes, "China and Liberalism Globalised", *Millennium: Journal of International Studies*, Vol.24, No.3, 1995, p.439.

⁷² J Howell, "An Unholy Trinity? Civil Society, Economic Liberalisation, and Democratisation in post-Mao China", *Government and Opposition*, Vol. 33, No.1, 1998, p.72.

model of development. Put simply, there is a middle way between the minimal state and the overbearing state - or the authoritarian state which exists in China.

Here we identify the social forces which the US supports in China and affirm that such forces are both antithetical to comprehensive democracy and are symbiotically interwoven with a state apparatus upon which they rely to provide social stability and conditions conducive to unfettered capital accumulation. Following Robert Cox, then, it is imperative that we disaggregate the Chinese state and examine critically which class and social fractions enjoy hegemony within China and, in a global context, which forces are supported by the US neo-liberals. As described above, sections of the US government, the US private sector and even large sections of the NGO community are ideologically pre-disposed towards supporting China's emerging capitalist class and the activities of the private sector. Such a class, it is predicted, forms the nucleus of a consumerist middle class which will, in time, begin to organise itself within civil society through independent social organisations and campaign for greater autonomy from the state, especially greater individual, or civil, rights.

This view, Jude Howell argues, is based upon a fundamental misunderstanding of what is happening in China at present. Howell argues that "the relationship between the party/state and the new intermediary sphere" in China is best seen "as one of incorporation rather than corporatism."⁷³ The proliferation of "semi-offical social organisations" (the Chinese government's name for NGOs), such as the China Enterprise Management Association and the Shenyang Lawyers Association, are products of state policy and state sanction. As Howell further points out, such organisations "enjoy some degree of autonomy from the state precisely because it is in the latter's interest to do so" by "relieving the state of its former

⁷³*Ibid.*, p.63.

responsibilities."⁷⁴ The Chinese state is, in short, delegating power to quasi-autonomous non-governmental-organisations (quangos) which "take over functions of service delivery."⁷⁵ Such groups are entirely devoid of popular accountability and represent an already privileged strata of Chinese society. Moreover, such groups are partially funded by the state and granted licences by the Ministry for Civil Affairs, encapsulating the new political interface between the state and entrepreneurs.

As Anita Chan observed, "the government's strategy is to pursue a policy of co-optation and inclusion of the elite groups within society; but *vis a vis* ordinary people, the leadership pursues a policy of exclusion."⁷⁶ Without what Habermas calls a "critical public sphere"⁷⁷, civil society cannot take root even with the existence of 'formal' institutions. US political pressure is unlikely to change China from the outside - even if this were desirable - but it is even less likely that democratic forces can emerge when sectors of the US government and business support a capitalist/state axis which actively suppresses the grass roots and organic expressions of popular democracy. Although this capitalist/state formation involves an "implicit...battle for hegemony"⁷⁸ between the state and China's new capitalists, it is clear that, at present, this grouping of state personnel and capitalist elites forms a hegemonic coalition of ruling social forces across the state-society nexus. The state provides the stability needed for capital accumulation (often maintained through the state's coercive machinery), while the private sector continues to deliver the economic growth which maintains the political

⁷⁴ *Ibid.*, pp.66-7.

⁷⁵ J Howell, "NGO-State Relations in Post-Mao China" in D Hulme and M Edwards (eds) *NGOs, States and Donors: Too Close for Comfort*, New York, St.Martin's Press, 1997, p.211.

⁷⁶ A Chan, "China: the Changing Political Elite", in G Rodan (ed) *Political Oppositions in Industrialising Asia*, p.165.

⁷⁷ See J Habermas, *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society*, Cambridge, Mass, MIT Press, 1989.

⁷⁸ J Howell, "An Unholy Trinity", p.70.

legitimacy of the CCP. Hong Kong may be seen as a microcosm of what is taking place on the mainland as business leaders on the territory fasten themselves to the CCP and act in open hostility to democratic forces within the middle class whilst favouring increasingly oppressive measures to deal with the poor. This seems to bear out Robert Cox's view that state restructuring under conditions of economic globalisation involves the state assuming enhanced "riot control" powers aimed at "minimising the risk of chaos in the bottom layer."⁷⁹ In China today social disorder from those outside the reform process, as exemplified by such activities as crime, drug smuggling, prostitution, peasant riots and factory strikes, is viewed as an unwanted bi-product of socio-economic change to be contained at all costs.⁸⁰ While this is an understandable position, it is the break up of China's welfare system and the intensification of social values based on earning money alone (perhaps more so than in the US due to China's largely secular culture) which are allowing such conditions to flourish. Needless to say, this hegemony is a fragile one but opposition to it is unlikely to come from the new middle class which is more concerned with the safety of their investments, shares and property speculation. Rather, as North points out, it is likely to stem "from working people, the rural poor, intellectuals and other citizens left behind by the narrow boom."⁸¹

Prospects for Democratic Enlargement/Civil Society

As has been stressed, civil society has been stifled in China and so social forces resistant to authoritarian state power have found it difficult to organise in a cohesive and systematic way. It is argued here that such movements have not come to fruition in China precisely because capitalist reforms have been subsumed within a Confucian tradition of authoritarian rule

⁷⁹ R Cox, " Democracy in Hard Times: Economic Globalisation and the limits to Liberal Democracy", in A McGrew (ed), *The Transformation of Democracy?*, London, Polity Press, 1997, p.58.

⁸⁰ Howell, "NGO-State Relations", pp.210-11.

⁸¹ J North, "Mao's book Turns Green", *The Nation*, November 10, 1997.

which, in turn, have been tailored to the exigencies of the global economy.⁸² However, Chinese workers, many now ex-workers, have ready-made and organic social groups through which to resist the dictates of central government and the party elites which control many of China's provincial governments. This is not to apportion priority to productive forces but, rather, to suggest that the most obvious conjunctural force willing, and perhaps able, to organise for social protection, justice, and democracy is located within a labour force currently being systematically dismantled by the reforms of [Chinese Prime minister] Zhu Rongji. Another source of resistance may come from those ethnic groupings currently being treated with great brutality and insensitivity by the CCP (mentioned above). Those indigenous peoples whose communities are being ravaged by huge and environmentally damaging projects, such as the Three Gorges Dam (which will be discussed further in chapter 5), offer another potential source of political contest. It is these groups, argues David Martin Jones, and not the "illiberal"⁸³ middle classes, who offer the main hope of forging democracy in China.

Though we here identify possible sources of contestation it should be stressed that only a coalition of these forces, at present unlikely, could hope to mount a sustained campaign against certain reforms and would necessarily be reliant upon the support of US, and other, social forces contesting the extent of the market's role in bringing about change. Moreover, such campaigns, of themselves, should not be seen as an alternative to changes in state policy which would be needed to implement new welfare provisions in place of the 'iron rice bowl' or to replace lost jobs through a more Keynesian economic strategy (discussed in chapter 3). It

⁸² For a discussion, see A Dirlik, "Critical Reflections on Chinese Capitalism as a Paradigm", *Identities: Global Studies in Culture and Power*, Vol.3, No.3, 1997, pp.303-330.

⁸³ For the view that the paradigm of middle class politics in Asia has been to create an essentially "illiberal" political force, see D Martin Jones *Political Development Pacific Asia*, Cambridge, Polity Press, 1997. Martin Jones perceptively notes how the middle class in Asia is a creation of the state and did not evolve in opposition to it as in the US. For Martin Jones, "it is the middle class products of the state educational system, many of

should be noted that we have already discussed ethnic and religious groups at variance with state policy in our discussion of US human rights campaigns above. In the rest of this section we will focus upon indigenous Chinese groups likely to form part of any future movement contesting the policies of the Chinese state.

Labour in China

The bulk of China's workers today face a harsh environment. On the one hand, they are losing their jobs *en masse* due to the privatisation of the state sector and, on the other, they are being forced to work for low wages for Chinese and foreign-owned companies keen to use this cheap source of labour in order to bolster competitiveness. Women suffer disproportionately in the Chinese workplace due to the twin problems of worker exploitation and sexual harassment as well as certain cultural traditions in China which continue to demean the status of women.⁸⁴ T Kumar of Amnesty International, USA, has pointed out the broader hardships facing women in China, including continued forced abortions and sterilisation by local governments under China's one-child policy, as well as the alleged common sexual abuse and rape of women detained by the authorities.⁸⁵ As an ostensibly socialist state China's ill treatment of workers, trade unionists and peasants points to the major contradictions between professed ideology and political practice which has long characterised China's muddled socialist experiment. As mentioned, reform of the SOEs may well engender a groundswell of disaffected, and former, workers laying the foundations for labour resistance to state policy. The New York-based group Human Rights Watch/Asia has recently brought to the world's attention a particularly pertinent example of the Chinese state's repressive measures in dealing

whom subsequently enjoy state employment and patronage, who are expected to respond positively to official demands for greater unity.", p.143.

⁸⁴ G Greenfield and A Lepong, "China's Capitalist Communism: The Real World of Market Socialism", in L Panitch (ed) *The Socialist Register: 1997*, London, Merlin Press, 1997, p.101.

with dissent. The plights of Li Wenming and Guo Baoshang, two organic labour activists attempting to represent vulnerable migrant workers, demonstrate China's hostility to worker representation. The two activists have been accused of "crimes" relating to the opening in 1993 and early 1994 of an *ad hoc* workers rights education centre and the distribution of an unofficial journal, *Workers Forum*, in the southern city of Shenzhen. For these activities, they face over three years in prison and, up until 1997, have been badly treated while awaiting trial. As HRWA's Sidney Jones notes, their offences amount to "nothing more than trying to educate Chinese migrant workers about their rights to organise and engage in collective bargaining in the workplace."⁸⁶ Such a case is not isolated but indicative of the broader usurpation of basic worker rights, often with the acquiescence of US and other foreign firms, as China's economy adapts to the competitive nostrums to the global economy.

In addition to worker disquiet there is the increasing possibility of peasant revolts as traditions, land and identity are uprooted in the name of local and global capital accumulation and as great swathes of the interior are frozen out of the prosperity with which coastal China is awash. According to Anita Chan, the peasantry are often subjected to "*ad hoc* taxes" and local corruption with little recourse to legal protection.⁸⁷ In 1992 and 1993 peasant uprisings, not unlike those motivating the Mexican Zapatistas though without their level of organisation or access to weapons, broke out across the inland provinces. In Renshou County in Sichuan Province 10,000 peasants occupied government offices and managed to resist the authorities for days.⁸⁸ Thus repressive conditions in the workplace; new levels of structural unemployment stemming from SOE reforms; and the displacement of rural farming

⁸⁵ T Kumar in APC, *Focus on China*, p.16.

⁸⁶ "Shenzhen Court Sentences Chinese Labour Activists", <http://www.hrw.org/hrw/press/china/976.htm>.

⁸⁷ Chan, "The Changing Ruling Elite", 176.

⁸⁸ *Ibid.* . p.176.

communities are all serving to create social groups outside of the reform process - a factor which may impact on the behaviour of foreign investors concerned with long-term stability. Such unrest has shaken some of the assumptions of US policymakers in terms of the pace at which China can realistically liberalise and retain a socially inclusive reform process.⁸⁹

The US, China and Human Rights

Let us now address head on a question which has continually surfaced during this chapter. It relates to the efficacy and sustainability of universal claims of human rights by the US and counter-claims that universality represents cultural imperialism made by China and other Asian states. We need to understand this debate both historically and with reference to trends in the global political economy. Samuel Huntington has, in a sense, thrown down the gauntlet in terms of appropriating primacy to the role of culture in the post-Cold-War world order. Although Huntington offers a characteristically functional approach to the question of civilisations he is probably correct to draw attention to the fact that the cultural sphere is an important element in determining certain alterations in the configuration of world order. Where Huntington goes utterly awry is in his argument that this needs to be viewed in a "them against us" manner.⁹⁰ We argue here that the Asian challenge to Western values should be rejected in its spurious form, as promulgated by Asian and Western nationalists, but does offer the possibility of recognising that global politics in the post-Cold War era needs to be more consensual and inclusive.

The US has been keen to use the UN to vocalise its objections to Chinese human rights abuses which, as Wan notes, allows "Washington to pressure China without putting US trade and

⁸⁹ Interview, US Department of State (China desk), December 18, 1997.

⁹⁰ Sec S Huntington, "The Clash of Civilisations?", *Foreign Affairs*, Vol.72, No.3, 1993, pp. 22-49.

investment opportunities at risk."⁹¹ This reflects the US commitment to the United Nations Universal Declaration of Human Rights of 1948. The US has thus far been unsuccessful in pushing a motion through the UN Human Rights Commission (UNHRC) which would subject China's human rights record to international debate; China has successfully rallied support from other developing countries.⁹² China's market is a pivotal factor in a change of tack by the Administration which now acknowledges that progress on human rights will indeed be a "slow process", though human rights bureaucrats continue to insist on universal principles and claim not "to make anything at all" of the argument surrounding Asian values and cultural relativism. Within the State department's human rights bureaucracy "multilateralism on human rights" is seen as the best way forward and one official pointed to the ethical stance of countries such as Sweden and Denmark with more to lose than the US from applying sanctions to China.⁹³ The argument put forward most forcefully by the US State Department is the convincing line that is refuses to view the rights of Asian individuals as less important than their Western counterparts.⁹⁴ As stressed above, the Clinton Administration has failed to ensure broader human rights standards are adhered to by regulating the conduct and practices of US firms operating in China. This would avoid any resort to protectionism or sanctions, but would impose minimum standards on US firms. As Greider notes, a start in humanising the global economy can only be made by "imposing some firm rules on US-based companies - stipulating what we expect in their behaviour, what we will not tolerate from toymakers or shoemakers or auto and aircraft manufacturers."⁹⁵

⁹¹ M Wan, "Human Rights and Sino-US Relations", p.244.

⁹² *Ibid.*, p.245.

⁹³ Interview, Bureau of Human Rights, Democracy, and Labour, 17 November, 1997.

⁹⁴ *Ibid.*

⁹⁵ W Greider, "Saving the Global Economy", *The Nation*, December 15, 1997.

In sum, until labour rights and human rights become an intrinsic component of US corporate activities which are bolstered by state policies aimed at enhancing national competitiveness (possibly governed by a new set of transnational regulatory mechanisms), China will continue to win support in the developing world and be able to portray the US human rights advocates as part of a broad US strategy which ratchets up competitive pressures in the global economy and then attempts to see off potential competitors by playing the human rights card.

Asian Values

As emphasised, then, China's leaders simply do not accept America's definition of human rights, claiming it to be a Western construct foisted upon developing countries and competitors in order to compound existing global power structures. In the words of one Chinese official and axiomatic of the general stance of the Chinese government; "the Western countries...are in no way genuinely concerned about the fundamental human rights of (target countries)...Rather, their objective is to change these countries social, political and economic systems, undermine their sovereignty and independence, and intervene in their internal affairs so that they will be subservient to them."⁹⁶

Along with countries such as Malaysia, Singapore, and Thailand, China's political leaders have promoted a discourse of 'Asian Values' embedded in the rediscovery of a Confucian discourse preaching obedience and cultural conservatism. We argue that this discourse simply cannot be abstracted from global capitalism and the discourse of "disciplinary neo-liberalism."⁹⁷ China's leaders are harnessing an authoritarian history to global economic discipline in an extremely convenient way and one which plays down many other religious and spiritual doctrines in

⁹⁶ Chinese official quoted in AJ Nathan, "Human Rights in Chinese Foreign Policy". *The China Quarterly*, Vol.139, 1994, p.642.

⁹⁷ See S Gill, "Globalisation, Market Civilisation, and Disciplinary Neo-Liberalism", *Millennium: Journal of International Studies*, Vol. 24, No.3, 1995, pp.622-643.

Chinese history and theology less suited to the rigours of the global market place.⁹⁸ It is designed to produce a Foucauldian self-discipline, taking the form of a discursive regime of truth, in an age when the Chinese state is finding it difficult logistically to police, survey, and punish sections of Chinese society deviating from the modernisation project as discussed above. Thus power passes from the domain of direct coercive control to a broader self-regulative discourse of nationalism and essentialist values. 'Asian Values' are those values which allow China's authoritarian capitalism to flourish unhindered. Their "other" is apparently decadent Western liberalism. China's campaign against so-called "bourgeois liberalisation" in the cultural sphere, however, may be seen as a narrow conservatism rather than any residue of Marxist social analysis. Ghai puts it this way: "if there is a decadence or a sense of alienation in the West, it is not a consequence of rights but of the market economic system that dominates family and social relationships." He further notes that it is "that economic system, and the technological and organisational forms that go with it" which "have been warmly embraced by the prophets of 'Asian Values.'⁹⁹ This is not to say that China's embrace of technology and a new economic system are wrong *per se*, but that without a strong social element they can exacerbate inequality.

Another consideration here is the claim of sovereignty posited by the Chinese leadership which very much ties in with the concept of 'Asian Values'. Postcolonial analysts correctly assert that China's leaders, in this respect, are merely replicating colonial notions of the nation as a fixed territorial boundary (now, ironically under question in the West due to globalisation) when, throughout history, China was conceived in terms of cosmology, as a spiritual or spatial civilisation whose source of legitimacy was the Mandate of Heaven rather than the *dictates* of

⁹⁸ For a discussion, see Chapter One, "Political Culture and Political Development in Pacific Asia: The Evolution of the Developmental State", in Martin Jones, *Political Development in Pacific Asia*, pp. 3-58.

Beijing. It is no coincidence, then, that patriotism is not something motivating China's new capitalists nor the overseas Chinese who financed Chinese growth during the 1980s. As Yu-Shiu notes, Chinese sovereignty has historically been rendered unstable by forces from within willing to align themselves with foreign powers. Following the Boxer Rebellion of 1900, "politicians cared less about external sovereignty rights than their own power leverages in the domestic political and military arena. Many made shocking concessions to former colonial powers in order to receive aid in battling domestic opponenets."¹⁰⁰ Moreover, in the 1950s, overseas Chinese were wooed by Mao as "people's capitalists" and now account for more than half of all foreign investment in China.¹⁰¹ In the contemporary context, a subtle change in the stance of China's leaders has been noted by several writers. According to Nina Glick Schiller, the reification of the idea of "Chineseness" as a transnational identity serves Chinese leaders "interested not only in insuring a flow of remittances to China but also in encouraging overseas Chinese with considerable amounts of capital to invest in China and protect Chinese interests overseas." Glick Schiller points to the case of Johnny Chung, briefly mentioned above, who is now imprisoned for making illegal donations to President Clinton's 1996 election campaign as an example of "transnational state building in an era of globalisation." The case also reveals how the strategies of US and Chinese business interests sought to subvert US law for mutual gain by attempting to change the laws on the export of US defence

⁹⁹ Y Ghai, "Human Rights and Asian Values", *APC Focus*, Double Issue, Jan/Feb/March/April 1998, No.11 and 12.

¹⁰⁰ C Yu-Shiu, "A Postcolonial Reading of the State Question in China", *The Journal of Contemporary China*, Vol.7, No.17, 1998, p.128.

¹⁰¹ "Chinese Leaders See Benefits in Courting US Immigrants", *The Washington Post*, 31 October, 1997.

technology.¹⁰² Thus corporate players from both countries formed an interlocking interest against the US state while also subverting the democratic process.

For this transnational class, mobility is the key and the entire concept of a "Greater China", though ethnically defined, certainly does not correlate with the idea of the fixed sovereign state but, rather, with a global web of complex and interweaving Chinese communities for whom networking and *Guanxi* (business by means of establishing contacts) far outweighs territorially defined loyalties.¹⁰³ In short, the 'Asian Values' discourse has been championed principally by the leadership technocrats who are themselves concerned more with their own power base than with the generic welfare of their citizens. As many analysts have noted, China has never missed an opportunity to attack the US over human rights abuses and, in doing so, implicitly accepts the existence of universal standards of moral conduct.¹⁰⁴

Conclusion

The first section of this chapter has looked at state-society relations and, specifically, the impact of various groups upon the formation of America's China policy within an innately pluralistic and fragmented culture. Though the groups discussed do not always determine US foreign policy they do have a serious impact upon which policies the Administration can and cannot adopt. We note, however, that although they contribute the ethical and moral debate on the formation of US-China policy, such groups do not always reach a long-term view on

¹⁰² N Glick Schiller, "Citizens in Transnational Nation-States: The Asian Experience", in K Olds, P Dicken, PF Kelly, L Wong, and H Wai-chung Yeung (eds), *Globalisation and the Asia-Pacific*, London, Routledge, 1999, pp. 213-215.

¹⁰³ S Scagrave, *Lords of the Rim: The Invisible Empire of the Overseas Chinese*, London, Bantam Press, 1995.

¹⁰⁴ As Shiu points out "China denies the validity of the Western human rights standards...based upon its sovereignty argument without noticing that the sovereignty argument is also invented and imposed upon China by the West." At the same time, "China cannot resist criticising the US human rights performance as if the issue can transcend sovereignty on the other hand." Yu Shiu, "A Postcolonial Reading of the State Question in China", p.131.

how to devise an American China policy.¹⁰⁵ This is as true for the far right as for left-wing human rights and labour lobbies which tend to respond to China issues without any serious regard for the costs of isolating China. As argued in our previous chapter, disengagement from China could create negative protectionist sentiments and, equally, cause China to adopt a more insular and less globally orientated foreign policy. This is particularly pertinent to the stance taken by both the left and right in the US with regard to free trade. We agree that China needs to be kept within the global economy as argued by the Clinton Administration and that sub-state groups and NGOs would do better to focus their efforts on environmental and economic changes at the global level where new standards and regulations could be enforced by multilateral means. In many respects liberal internationalists do have soundly reasoned arguments in viewing economic ties as, at least, partially regulating China's government. There is therefore some truth in Segal's claim that "Beijing can succeed in bumping BBC Television news from foreign satellites, but Baywatch and soap operas are let through and in the end are far more corrosive of authoritarian values."¹⁰⁶ This argument applies also to human rights concerns where disengagement over free trade would probably exacerbate China's authoritarian tendencies and would certainly worsen the working conditions of Chinese labour as well as the position of the persecuted minority groups to which US lobbies tend to attach themselves. Interestingly, the Chinese government's argument that economic prosperity comes first is, in many senses, supported by the Clinton Administration which has argued that free trade will, ultimately, lead to greater freedoms and the gradual erosion of authoritarian rule.

Our second section problematised the view that trade liberalisation and open markets will *necessarily* engender democracy in China and a strong and open civil society. As research by

¹⁰⁵ Interview, Asia-Pacific Centre for Justice and Peace, October 1997.

¹⁰⁶ G Segal, "Enlightening China" in D Goodman and G Segal (eds) *China Rising: Nationalism and Interdependence*, London, Routledge, 1997, p. 176.

Howell in particular demonstrates, the Chinese state has been highly adept in co-opting Chinese NGOs within the state structure and combining capitalism with authoritarianism. Moreover, the US, as Robinson in turn has shown, has historically been satisfied with polyarchical forms of democracy which institutionalise property rights and the rights of market actors but which fall short of full constitutional or representative democracy. Though the Clinton Administration's policy towards China is a highly complex balancing act it is clear that open markets have taken priority over the existence of an open society and, in China's case, it is not altogether clear that economic reform will produce the latter. It is also argued that the emergence of popular democratic forms in China would likely create instability and damage China's credibility in global markets. In this sense, the overt sponsorship of democracy in China could well be detrimental to overall US interests. Moreover, and as stressed above, too precipitous a move to democracy could create a Soviet-type situation where political fragmentation creates political and economic inertia and allows criminal and mafia elements to take greater control of the economy at the expense of ordinary people.¹⁰⁷

In sum, though the existence of NGOs and non-state actors is highly relevant to the US-China relationship and worthy of discussion in the present context of economic globalisation, it is equally true that it is still, in all probability, likely to fall to states themselves to institute the kind of changes NGOs are attempting to instigate. This is likely to take place at the global level through the addition of workers rights to the WTO agenda and the establishment of new environmental standards. The one exception here would, of course, be the role of business as a sub-state actor which is, as noted above, considerable and which cannot be understood in isolation from the role of government. Within the US political system business leaders and politicians often have interchangeable roles and it is this structural advantage under

¹⁰⁷ J Henderson, "Danger and Opportunity in the Asia-Pacific" G Thomson (ed), *Economic Dynamism in the*

conditions of pluralism, as originally noted by Lindblom¹⁰⁸, which also stacks the odds against other groups in US civil society. The only force which can regulate the conduct of business is the US government. Equally, social improvement in China is most likely to come from the action of the Chinese government which, under continually changing economic and technological conditions in which information and knowledge are ever more diffuse, may have to adapt to the reality of political liberalisation by stealth.

Asia-Pacific, London, Routledge, 1998, p.380.

¹⁰⁸ See C Lindblom, *Politics and Markets*, New York, Basic Books, 1977.

Chapter 5

US-China Relations and the Environment

“As long as civilization as a whole, with its vast technological power, continues to follow a pattern of thinking that encourages the domination and exploitation of the natural world for short term gains, this juggernaut will continue to devastate the earth no matter what any of us does” - US Vice President Al Gore.¹

Introduction

The environmental impact of China's increasing level of industrialisation and development has been woefully neglected by a US-China literature too often wedded to outmoded or inept terms of reference whether liberal or realist. What interest there has been in the environmental impact of China's growth overwhelmingly conforms to a biased US perspective which defines ecology and the politics of environmentalism through the lens of market solutions. In this sense, environmental relations between the US and China has to be understood within a neo-Gramscian understanding of US hegemony and, more importantly, the hegemony of neo-liberal solutions to environmental problems within global institutions and among corporate actors. This perspective treats the environment as an adjunct of the narrow neo-liberal focus upon market share, market access, and US competitiveness. The neo-liberal perspective also views the question of environmental degradation as a technical problem rather than part of the systemic haemorrhaging of the global balance between production and consumption. In contrast with the dominant approach we argue here that the environment is an independent structural issue which must be accorded political primacy and which transcends the short-term

outlook of corporate actors and the zero-sum competitive strategies certain players within the US state. In policy terms we look to the possibility, however remote at the present time, of what John Dunning describes as the “macro-economic organisation of economic activity” in the light of a globalisation process which internationalises much of the context within which political decisions are made.² Moreover, we examine US-China relations in the environmental sphere with one eye upon the development of, in Dunning’s words, co-operative “cross border alliances to exchange information and ideas and, where appropriate, co-ordinate policies.”³ This approach seems particularly apposite to the environmental sphere where the zero-sum competitive shibboleths of economic nationalism undermine the need for a shift to transnational modes of governance under conditions of globalisation.⁴ We argue that governments still have a key role to play here in institutionalising new forms of national, cross-border, and global regulation, the *sine qua non* for which are long-term criteria related to sustainable development and which reconfigure the ‘concept of the political’ in global/spatial terms.⁵ Failure to forge co-operative regimes and agreements in the environmental sphere will, in the long term, lead to the further degradation of the global environment. As Lipietz puts it, “one can have smoking compartments on trains; but there cannot be polluting compartments on our planet.”⁶

¹ A Gore, *Earth in the Balance: Forging a New Common Purpose*, London, Earthscan, 1992, p.269.

² J Dunning, "Government and the Macro-Organisation of Economic Activity: An Historical and Spatial Perspective", *Review of International Political Economy*, Vol.4, No.1, 1997, p.75.

³ *Ibid.*

⁴ *Ibid.*

⁵ RBJ Walker, "The Concept of the Political", in K Booth and S Smith (eds), *International Relations Theory Today*, Cambridge, Polity Press, 1995. For Walker this means a recasting of political space whereby political decisions are taken with regard to their impact beyond the here and now and existing political norms. The environment is surely a norm yet to be approached as an intrinsic part of all political activity.

⁶ A Lipietz, *Towards a New Economic Order: Postfordism, Ecology, and Democracy*, London, Oxford University Press, 1992, p.125.

The Global/Structural Backdrop to US-China Environmental Relations

We cannot begin to discuss US-China relations in the environmental sphere without first taking into consideration the increasingly globalised ecological debate upon which bilateral issues are predicated. From our perspective the ecological debates of the 1990s have been characterised by the systematic co-option and dilution of the environmental agenda by neo-liberal forces. Transnational corporations, working in synergy with OECD governments, have ensured the subjugation of environmental concerns to those of transnational capital. This hegemonic strategy emerged from the UN Conference on the Environment and Development (UNCTAD) in 1992 and largely remains in place following the Kyoto Summit of December 1997. This strategy ensures that debates on the environment continue to take place within a narrow Western/neo-liberal discourse increasingly defined in terms of economic globalisation. It is worth quoting Matthew Paterson: "The emergence of global environmental problems has become an important part of the globalising strategy of Western elites. The emergence of the environmental crisis in its latest form has become a useful hegemonic project to legitimise further globalisation."⁷ The current global environmental agenda, then, constitutes a hegemonic strategy propagated by the advanced capitalist countries, the forces of transnational capital, and their allies among developing world elites.

It is also worth considering research by Newell and Paterson which has demonstrated the extent to which large corporations, particularly fossil fuel companies, have been able to win acceptance for their agendas. The Global Climate Coalition (GCC) (which comprises US companies such as the American Petroleum Institute, Du Pont, Dow, Ford, General Motors, and Texaco) presents itself as a global lobby "because of the international operating reach of many of the companies" and "despite the disproportionate representation of US companies

within the lobbies.”⁸ This coalition has been tremendously important in forging “transnational alliances with other states...with which they have clearly consistent interests, but also with developing countries in general, trying to persuade them that the adoption of emissions limitations by industrialised countries would have severe economic impacts on them, primarily through increases in prices for energy and manufactures.”⁹ Most importantly, “fossil energy companies are clearly privileged in state policy-making processes” in that “governments routinely consult and take account of the interest of energy lobbies when proposals are being formulated.” Moreover, because energy industries play a pivotal role in the running of national economies “they are, by definition, a force with which governments have to negotiate on issues of energy planning and implementation.”¹⁰ Within the US, the government negotiates privately with energy companies prior to international summits and usually commits to an agenda protective of fossil fuel interests and intent on stressing the scientific ambiguities which attenuate climate change. According to Newell and Paterson, “the US government knows the intensity of resistance which would greet proposals to limit the supply or consumption of energy” and this “makes even the prospect of legislating in this area undesirable.” For Newell and Paterson this attests to the structural power of energy lobbies in delimiting US government strategies in the global environmental sphere. Of course, this is often less the fault of US government personnel that part of an inability to force adjustments on US consumption levels and to tackle vested economic power. This dynamic of US politics has plagued successive Democratic administrations (notably Carter’s failed attempt to introduce energy conservation proposals in 1977 and Clinton’s failed energy tax proposals of 1993.)

⁷ M Paterson, "UNCED in the Context of Globalisation", *New Political Economy*, Vol., No.3, 1996, p.402.

⁸ P Newell and M Paterson, "A Climate for Business: Global Warming, the State and Capital", *Review of International Political Economy*, Vol.5, No.4, 1998, p.683.

⁹ *Ibid.* , p.683.

Moreover, as we observed in chapter 4, the cohesion and organisational unity of business lobbies gives them a distinct advantage in promoting their interests within the US political system as compared with fragmented NGOs. As again Newell and Paterson put it, “the operating scale of [corporate] lobbies means that they are able to organise themselves to put pressure on policy wherever their interests are threatened” and “the financial resources that the lobbies have at their disposal enable them to work more effectively, by employing the best lobbyists and being able to operate in a more professional manner.”¹¹

It is in this context, then, that the global agenda of environmental politics has been enframed during the Clinton years and which has, in turn, precluded any radical measures towards US-China cooperation in stemming their mutually high levels of pollution. Let us now appraise the two conferences which have largely defined that agenda in the 1990s and the ways in which they inevitably impact upon US-China relations.

From Rio to Kyoto: A Case of Sustainable Hegemony?

China’s growing power raises key questions which amount to nothing less than a serious reappraisal of what we mean by such terms as modern and developed states in a post-hegemonic era, bearing in mind that the concepts of modernisation and development were largely the product of US sociologists in the neo-functionalist mould. China’s uneven creation of wealth at the present juncture may, in the long term, be ecologically unsustainable and certainly incommensurate with social stability. We argue that, at present, the role of the United States in China’s environmentally damaging developmental trajectory must be understood within the context of what Vandana Shiva has cleverly termed “sustainable

¹⁰ *Ibid.* , p.684.

¹¹ *Ibid.* , p.690.

hegemony.” In Shiva’s usage, this term suggests that, as long as control over environmental technologies and their availability remains in the hands of those nations and corporations often responsible for pollution in the first place, there is likely to be little by way of structural change in global environmental politics.¹² That is to say that China’s ability to cope with potentially damaging environmental conditions relies heavily upon the response of the technology-rich United States and the global financial institutions over which it exerts so much structural power. We do not, however, necessarily share the pessimistic structuralist assessment that current US intransigence *necessarily* entails non-cooperation over environmental matters in the future. As discussed below, key agencies within the US government view ecological matters as global and beyond the remit of purely market solutions.¹³ Moreover, China’s approach to environmental issues has also depended, to a great extent, upon the outcomes of the Rio and Kyoto Summits and the emergence of a new consensus governing global environmental norms in which developing nations play a more active role.

The Rio Summit of 1992 effectively allowed transnational capital to define what we mean by environmentalism and sustainable development. In this sense it legitimised a hegemonic discourse defining ‘common sense’ solutions in terms of market rationality and neoliberal ideology (which is itself contested). Thus Rio witnessed the promotion of environmental strategies which do not impede the free flow of global capital or the ideological remit of global institutional structures which promote economic liberalisation. In an excellent critique of the neoliberal brand of environmentalism (cemented at Rio) Chatterjee and Finger point out that what emerged was essentially a victory for Western science and technology, Western finance,

¹² See V Shiva, "The Greening of Global Reach" in W Sachs (ed), *Global Ecology: A New Arena of Political Conflict*, Halifax, Fernwood Books, 1993.

and Western technocratic expertise.¹⁴ Moreover, the very social forces which have caused the current environmental crisis (encouraging over-accumulation, unsustainable levels of consumption, and economic short-termism) were largely exempted from the final agreement. The activities of TNCs were not curtailed or regulated in any significant way as the agreement continued to approach political solutions in outmoded state-centric terms, allowing the forces of global capital to steer an often environmentally ambiguous course relatively unchecked. As Caroline Thomas demonstrates, Agenda 21 (the requirement that countries evaluate their environmental needs and present them to the UN so that local projects may be considered for multilateral forms of funding) evolved into a glorified corporate catalogue where the advanced economies and the companies based within their ambit sell clean air technologies¹⁵ to developing countries whilst continuing to practise and encourage unsustainable levels of global economic growth and consumption.

A key failing at Rio, undermining the arguments of those who viewed proceedings as globally representative or inclusive, was the *de facto* negation of fundamental structural issues within a developmental context. As Thomas puts it, "debt repayment, terms of trade, regulation of TNCs, IMF and World Bank Structural Adjustment Programmes [SAPS]..... - i.e. all the underlying economic problems were...swept under the carpet."¹⁶ Questions relating to Northern (especially US) levels of consumption and the debate over the advanced nations' expropriation of finite global resources were largely deflected by shifting the debate onto overpopulation or what Paul Kennedy has termed the 'demographic explosion' in the

¹³ Interview, Environmental Protection Agency, Washington DC, 2 December 1997.

¹⁴ See P Chatterjee and M Finger, *The Earth Brokers: Power, Politics, and World Development*, London, Routledge, 1994.

¹⁵ C Thomas, "Unsustainable Development", *New Political Economy*, Vol.1, No.3, 1996, p.406.

¹⁶ *Ibid.*, p.406.

developing world.¹⁷ This issue is, of course, particularly apposite to China where food and water shortages constitute an extremely vexing problem but cannot be divorced from the question of consumption - one US negotiators have been unable to engage seriously despite the pre-electoral commitments of Vice-President Al Gore to further the cause of the global environment. An adjunct of shifting the debate onto questions of population was the reification, once more, of the idea of the South as “subject” and “problem.” More specifically, as Charlotte Bretherton notes, the focus upon population contains an extremely gendered bias. For Bretherton, “despite the more significant impacts of over-consumption in the ‘developed’ world, population growth in the South has tended to be identified by Northern commentators as the major problem; and control of Third World women’s fertility as the solution.”¹⁸ Ironically, such a focus by neo-liberals implicitly bolsters infringements of women’s rights, such as China’s one-child policy.¹⁹

At Rio, the US shirked any firm commitment to financial and technology transfers of the scale required to offset environmental decay in countries such as China. Instead, an agreement unravelled which placed Northern OECD countries (the historical polluters) in charge of surveillance and enforcement. In terms of logistics this seems understandable, but it neglected the political input of developing world countries. The Global Environment Facility (GEF) (run by the World Bank, the UN Development Programme, and the UN Environment Programme) is reliant upon the good will of Northern donor agencies and governments. A glaring example of the UN’s failure to break from the policy prescriptions of neo-liberalism was the thwarting of a proposal emanating from the UN Conference on Trade and Development (UNCTAD) for

¹⁷ See P Kennedy, *Preparing for the Twenty-First Century*, London, Harper Collins, 1993.

¹⁸ C Bretherton, "Global Environmental Politics: Putting Gender on the Agenda", *Review of International Studies*, Vol.24, 1998, p.88. The feminist perspective is a powerful corrective to the instrumentalist predilections of liberal institutionalists who often abstract the environmental debate from its human context.

a Green Fund granting greater autonomy to poorer recipient countries in determining their own environmental priorities. Moreover, of the \$125 billion needed to even begin alleviating the environmental crisis (the UNCTAD Secretariat's own estimate), only around \$7 billion was pledged at the conference.²⁰ Moreover, the US and the advanced industrial nations of the OECD utilised their hegemonic largesse to block proposals, preceding the 1992 UNCED conference, from the UN Centre on Transnational Corporations (UNCTC) pertaining to specific measures aimed at regulating multi-nationals and making them more accountable and transparent. The UNCTC was disbanded soon after making its controversial proposals largely, we may presume, because it had been critical of the US and its environmental trajectory. This move, encouraged most forcefully by the US, occurred despite the fact that the UNCTC had significant support within the UN from the Group of 77 nations and Sweden representing a large swathe of opinion among poorer and more ecologically active nations.

In the end, it was the Business Council for Sustainable Development which provided the blueprint for the Rio agreement and, almost inevitably, what emerged reflected the interests of transnational capital first and foremost. Several key members of the Business Council were already engaged in efforts to adapt global corporations to new strategies of 'green' capital accumulation.²¹ The Agenda 21 proposals, then, carried with them an in-built bias favouring market solutions to the global environmental crisis which meant that multi-nationals could, in effect, cash in on the pollution they were instrumental in creating.²² Though it must be conceded that the Agenda 21 initiative was, in many senses, commendable and potentially

¹⁹ *Ibid.*, pp.88-9.

²⁰ D Glover, "Global Institutions, International Agreements, and Environmental Issues", in R Stubbs and GRD Underhill (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p.281.

²¹ Stephan Schmidheiny, an influential member of the Business Council, mapped out the need for transnational capital to tap into environmental concerns and the proliferation of green consumerism in his book. See S Schmidheiny, *Changing Course*, Cambridge, Mass, MIT Press, 1992.

radical, it was not accompanied by 'organisational restructuring' at the UN pertinent to the programme's oversight and implementation.²³ In neo-Gramscian terms, the co-optive power of transnational capital must take centre stage here, given the fact that the UN effectively transferred the practical dimensions of Agenda 21 into the hands of social forces concerned with finding more sustainable methods of capital accumulation, rather than more sustainable methods of development. In short, as long as the institutions of the global economy are controlled solely by advanced industrialised nations, primarily the US, a historically unsustainable paradigm of consumption and production is likely to continue with opposition bought off by piecemeal reforms to the existing system.²⁴

Kyoto

At the Kyoto Summit on global warming in December, 1997, the impasse created by the continued hegemony of transnational capital's representatives again failed to be broken. The US was, again, able to flex its ideological and institutional muscle exemplified by the Clinton Administrations prevarication over the issue of greenhouse gas emissions. At Kyoto the US championed the idea of an international trading system for emissions of carbon dioxide which, in effect, would allow the US to buy credits from other nations. This involves the US paying nations to pollute less so that the US can pollute more. At the heart of this strategy, is the Clinton Administration's need to placate domestic interests. Movements such as The Wise Up Movement, the Global Climate Coalition (GCC), mentioned above, and the Climate Coalition

²² Thomas, "Unsustainable Development", p. 407.

²³ The point here is that the Agenda 21 proposals were pioneering in identifying environmental priorities and the principle that the advanced industrialised nations play a key role in this both individually and *vis a vis* global institutions. However, the fact that the UN retained an essentially neo-liberal approach to the developing worlds environmental problems thwarted a new environmental paradigm based on the political reality of global ecological interdependence.

(CC) have successfully rallied the Administration in favour of vested corporate interests - corporations which the Clinton administration is, quite understandably, unable to alienate. Arguments in defence of maintaining national production levels have meant that such coalitions have also won support from unions. Often misleading campaigns on global warming are staged through the mass media by business in which it is claimed that it is not happening or that it constitutes a fringe concern. Moreover, job security is pitted against environmental protection, thereby completely sidestepping questions related to long-term sustainable development. Such lobbies have also used their unrivalled structural power to forge transnational alliances in the OPEC countries and the developing world, arguing that limitations on emissions will result in price-hikes for much needed commodities manufactured in the West. Moreover, companies such as Chevron, Mobil, and Texaco can always use their largesse to divert investment and to relocate from those countries enthusiastic about adopting environmental regulations.²⁵ The consequence of this strategy at the global level is that the US government and US-based TNCs can utilise their greater purchasing power in the global economy and effectively buy the privilege of polluting the atmosphere while transferring responsibility on to other states to make the necessary environmental adjustments within their own societies.²⁶ According to Greenpeace, the 'loophole' which is "hot air trading" means that CO2 emission in the industrialised nations will only decrease by one or two percent over 1990 levels, while levels in the developing world will increase dramatically.²⁷ This strategy constitutes the abdication of global responsibility and hegemonic leadership and thwarts any

²⁴ R Henry, "Adapting UN Agencies for Agenda 21: Programme Coordination and Organisational Reform", *Environmental Politics*, Vol.5, No.1, 1996, p.4.

²⁵ Newell and Paterson, "A Climate for Business", pp.683-4.

²⁶ R Maddock, "Environmental Politics and Policies in the Asia-Pacific", in R Maidment, D Goldblatt, and J Mitchell (eds), *Governance in the Asia-Pacific*, London, Routledge, 1998, pp.236-7.

²⁷ Greenpeace, "US Actions at Climate Summit Endanger the World", at <http://www.greenpeace.org/-climate/kdates/december.12.html>.

move to common standards of regulation predicated upon a global consensus. It also compounds the US refusal to sign the treaty on biodiversity at Rio, mainly due to pressure from business. Again, however, it is important to stress the limitations of the Clinton Administration in controlling globalised companies free to move their investment in a, more or less, autonomous manner.

A significant feature of the Kyoto Summit, however, was the degree of resistance to US policy from the developing world, particularly China. At the summit China's representative, Chen Yaobang, stated that "poverty eradication and developing the economy are still the overriding priorities of China" and that "it is not possible for the Chinese government to undertake the obligation of reducing greenhouse gases until the country develops."²⁸ This contrasted sharply with the position of the Republican-dominated US Congress during the Kyoto Summit. One fairly representative member stated that, "unless these [developing] nations are included, the Clinton-Gore administration will have no excuse to ask the American people to pay higher energy costs for this lopsided and unfair treaty."²⁹ Both positions are untenable and the Clinton Administration has attempted to straddle these extremes by devising an approach which is environmentally active, but pro-business. As we have suggested, this approach could be enhanced by infusing US-China environmental relations with a cooperative dynamic. Harvard scientists Michael McElroy and Chris Nielsen have argued that "there is a clear incentive to build indigenous capabilities and to give China a greater ownership of the relevant international science through accelerated joint research."³⁰ At Kyoto, however, the

²⁸ "Gore Pledges US Flexibility At Global Warming Conclave", *The Washington Post*, December 9, 1997.

²⁹ Comments made by Republican Senator, James F Sensenbrenner Jr. "Gore Urges Resolution at Climate Talks", *The Washington Post*, December 9, 1997.

³⁰ M McElroy and CP Nielsen, "Energy, Agriculture, and the Environment: Prospects for Sino-American Cooperation", in E Vogel (ed), *Living with China: US-China Relations in the Twenty-First Century*, New York, WW Norton, 1997, p.248.

US, as the world's biggest CO₂ polluter, took a largely unilateral line with regard to protecting US business and refused to commit to significant action despite the fact that it is home to 4% of the world's population and a staggering 20% of global CO₂ emissions. Chris Yang, of Hong Kong-based Greenpeace China, gave the alternative NGO view when he stated that "the US was given a historic opportunity to show real international leadership, but all they did was produce rhetoric to protect the US oil industry."³¹

However, it has not been lost on China, and other developing nations, that issues which affect the US, such as pollution and climate change, give them considerable bargaining power which, if used correctly, may force recalcitrant social forces within the US to concede the necessity of moving towards new global environmental regimes faced with threats to Northern lifestyles and health standards.³² The current stand-off between the developing world and the US/OECD nations can only be resolved, then, in the context of generic moves to re-regulate the global economy and to begin devising a co-developmental approach to a global problem overseen by multilateral institutions. The current conjuncture of world order precludes unilateral action due to the added costs associated with environmental expenditure in the developing world and the difficulty in transposing environmental values specific to the West on to a China still waiting to reap the material benefits of development.³³ Such unilateral action was largely prevented when the Clinton Administration, from its inception, defined US environmental strategy in terms of geo-economic nationalism and inter-capitalist competition rather than global sustainability and ecological interdependence. Let us now assess that strategy and the limited forms of co-operation they have produced in the domain of US-China relations.

³¹ Greenpeace, *US Actions at Climate Summit Endanger the World*.

³² A Dickson, *Development and International Relations: A Critical Introduction*, Cambridge, Polity Press, 1997, p.81.

³³ McElroy and Neilson, *Energy, Agriculture and the Environment*, p.248.

The Clinton Environmental Strategy

Following the Cold War the US economy was quickly exposed as being dangerously over-reliant upon defence spending and, thus, in need of reorienting its industries and economic strategy to a more competitive global economic environment. Part of this strategy involved a 'greening' of corporations formerly part of the US military industrial complex. The paradox inherent in this turn of events is neatly summarised by Pratt and Montgomery: "many of the dominant firms in the environmental technologies industry are involved in competition to clean up the hazardous wastes, control the pollution, repair the damage which as resource producers, chemical manufacturers and utilities they themselves created - pollution, penitence, profits."³⁴ Due to right-wing attacks on environmental legislation within the US Congress, as well as US government regulations, companies such as Westinghouse, General Electric, and Dupont were forced to globalise as they were hit by rising costs and overcapacity. From the outset, then, US multi-nationals sought to promote a 'soft' neo-liberal variant of environmentalism in the developing world whilst fleeing environmental regulation within the US.

In early 1993 the Clinton Administration launched an Environmental Technology Initiative designed to "accelerate environmental protection while strengthening America's industrial base."³⁵ In the words of the Administration, the "investment will aid the transition away from a defence-oriented economy, by stimulating the increased use of private sector R&D resources for environmental quality-related purposes."³⁶ An inter-agency group (involving the Environmental Protection Agency, the Department of Commerce, and the Department of

³⁴ L Pratt and W Montgomery, "Green Imperialism: Pollution, Penitence, Profits", in L Panitch (ed) *The Socialist Register 1997*, London, Merlin Press, p.76.

³⁵ *Ibid.* , p.83.

Energy) was formed and, in 1993, produced an environmental industry assessment entitled *Environmental Technologies Exports: Strategic Framework for US Leadership*. The Framework specifically targeted previously earmarked Big Emerging Markets (BEMs) and individual Export Market Plans were produced by a Commerce Department working group on environmental trade which sought to provide “recommendations on how to operate efficiently in this [China’s] “rapidly changing market.”³⁷ Writing in 1995, Peter Montagnon, of the *Financial Times*, estimated that China’s energy sector investment requirements would total \$1 trillion up until 2015; \$550 billion for electric power generation; \$180 billion for the exploration, production, refining, and distribution of oil; and \$90 billion in order to develop the required level of natural gas.³⁸ Emerging markets such as China’s, then, were key targets in a new export strategy which sought to identify genuine environmental problems as opportunities to bolster profits and secure market share in this most competitive of areas. The overwhelming benefactors were the US private sector. That is not to say, of course, that the entire US government was supportive of this strategy or, indeed, that there is any lack of forceful debate within US civil society. The US is home to the most vibrant debate on the environment in any of the advanced capitalist countries. Moreover, the US Department of Energy has taken a lead into undertaking scientific analyses of the impact of cars upon the US-China market with great emphasis on developing electric cars which can, at some point, be sold to China and avert the ‘environmental catastrophe’ which may attenuate China’s mass conversion to motoring.³⁹

Cooperative Ventures in US-China Relations

³⁶ *Ibid.*

³⁷ US Department of Commerce, International Trade Administration, *China: Environmental Technologies Export Market Plan*, US Government Printing Office, Washington DC, 1996.

The activities of the Department of Energy and the Environmental Protection Agency (EPA) have been largely subordinated to the Commerce Department's overall push for greater market share, often becoming conduits between business and China's environmental market or identifying environmental problems on behalf of the US private sector. In February 1995, for instance, Energy Secretary, Hazel O'Leary, led a Presidential Mission on Sustainable Energy and Trade to China accompanied by over 100 US executives for a joint summit with a Chinese delegation. The joint summit between US and Chinese government delegates on Sustainable Development addressed such issues as finance, environment, clean coal technology, oil and natural gas, renewable energy, electric power, and energy efficiency.⁴⁰ The US Department of Energy is also involved in such co-operative projects as the Beijing Energy Conservation Centre, promoting energy efficiency and a useful information gateway for US TNCs in identifying China's energy needs. The Centre is run in co-operation with the World Wildlife Fund (WWF) (illuminating the co-option of environmental NGOs), the EPA, and the Energy Research Institute (ERI) of China's State Planning Commission.⁴¹ The Commerce Department, the DoE and the EPA are also collaborating with China in supporting a \$2.3 billion Environmental Park in Yixing near Shanghai. The Chinese government has actively encouraged such international partnerships in order to promote domestic environmental technologies, but also due to its own dearth of technological expertise and infrastructure, thereby making US companies particularly indispensable.

In March 1997, the US-China Environment and Development Forum was set up during a visit by Vice-president, Al Gore, to Beijing. This initiative prioritised co-operation between the two

³⁸ Cited in M McElroy and CP Nielsen, *Energy, Agriculture and Environment*, p.239.

³⁹ Telephone Interview, US Department of Energy, Washington DC, November 17, 1997.

⁴⁰ US Department of Commerce, *Environmental Technologies Export Market Plan*, p.128.

nations and sought to address local, regional, and multilateral environmental issues. The issues given greatest import were climate change, energy and environmental science and technology; clean energy trade; and investment and technology deployment over the next five years.⁴² A key facet of this initiative, cemented at the US-China Summit of October 1997, was China's plans for rural electrification (bringing electricity to over 100 million rural Chinese) and China's air quality problems. The initiative is co-ordinated within the US by the Department of Energy, the Department of Commerce, the Office of Science and Technology Policy and the EPA.⁴³ In a joint statement, during the October 1997 summit, the Chinese government committed itself to greater business participation in meeting China's energy challenge and to implement regulator and pricing reforms to improve the prospects of enhanced trade and investment. Such measures confirm the fact that environmental co-operation is very often a neo-liberal euphemism for further Chinese commitments to market opening and that China's market, rather than China's environment, is usually the motivating factor behind any investments forthcoming from the US private sector. As Pratt and Montgomery aver, US investment usually gravitates towards projects in coastal China which promise quick and profitable returns, rather than to areas of more serious environmental degradation and in need of long-term investment such as Sichuan.⁴⁴

At the US-China Summit of October 1997, US Energy Secretary, Federico Pena, and Vice Chairman of China's state planning commission, Zeng Peiyan, also discussed plans for a US-China Oil and Gas Forum and a possible \$50 million commercial credit facility provided by the

⁴¹ *Ibid.*

⁴² Press Release from the Office of the Vice-President, *United States and China Advance Energy and Environment Cooperation*, October 29, 1997.

⁴³ *Ibid.*

⁴⁴ Pratt and Montgomery, *Green Imperialism*, p.87.

Eximbank to infuse energy efficiency and renewal projects with the necessary capital.⁴⁵ Such bilateral co-operation has also entailed an element of *quid pro quo*, with China possessing considerable expertise in the area of fossil fuels on which the US is still largely reliant. China's significant experience with bio-gas digestors (over five million in use in 1993) and Chinese research on biomass conversion are, according to Douglas Murray of the National Committee on US-China relations, a sign that environmental co-operation can be a reciprocal and "mutually beneficial" process.⁴⁶ Other areas of co-operation include aquaculture (which, controversially, includes the issue of developing genetic stocks in order to expand supplies for the US market) and agriculture. Moreover, China's massive demand for food has opened up a bilateral debate on organic food production and, with US organic farming gaining in popularity, China's long record of innovation in this area is seen as being of potential benefit to the US.⁴⁷ The main problem in all of this is the propensity of US multinationals to patent scientific breakthroughs even though they have been made through research in developing countries or, at the very least, with their co-operation. This has been highlighted by the recent debate over the Multilateral Agreement on Investments (MAI) which would divert yet more structural power into hands of corporations. Moreover, the very nature of the Intellectual Property Rights (IPR) privileges enshrined in the WTO discourage open and honest co-operation by privatising knowledge which would best serve the public good. If environmental co-operation between states is not to become a euphemism for exploitation, then the results of all co-operative ventures need to be safeguarded against their monopolisation by the private sector.

⁴⁵ *Ibid.*

⁴⁶ D Murray, *American Interests in China's Environment*, National Committee on US-China Relations, China Policy Series, No.6, January 1993, p.11.

⁴⁷ *Ibid.*, p.12.

Two critical domains of environmental co-operation are in the areas of transport and nuclear energy. There seems to be something of a fundamental conflict in the US approach to China's emerging transport sector. The Harvard academics, Michael McElroy and Chris Nielson, represent one view by urging that China "downplay the role of the personal automobile" and "reduce the massive investment required to develop a large-scale system of highways and the loss of arable land this would imply."⁴⁸ On the other hand, US companies are eager to tap into this potentially massive market with General Motors, Ford, and Chrysler already involved in several joint ventures, and with US firms contributing heavily to the \$3.6 billion in foreign investment over the period 1986-1995.⁴⁹ However, the Asian Development Bank has decided not to appropriate further resources for Chinese road construction schemes until the year 2000 while the World Bank, under pressure from Western NGOs, is increasingly demanding an overarching transport plan which takes into account environmental issues. As mentioned above, the long-term issue of transportation in China is bound to become increasingly salient as individual ownership of cars increases exponentially in China during the next few decades. The US EPA is already extremely concerned about lead and gasoline emission levels in China which are adding to health problems in China's major conurbations, especially among children, and is co-operating with China to find a solution to the problem.⁵⁰ Trade in nuclear energy has been a further bone of contention in US-China relations during the Clinton era due to worries about nuclear proliferation and the potential conversion of civilian nuclear technology for military purposes. However, the prospects for nuclear trade in the civilian sector, a multibillion dollar market in China⁵¹, were enhanced at the US-China summit of October 1997. Companies

⁴⁸ McElroy and Nielson, *Energy, Agriculture, and Environment*, p.246.

⁴⁹ WJ Xing, "Shifting Gears", *The China Business Review*, Nov-Dec 1997, p.9.

⁵⁰ Interview, Environmental Protection Agency, 2 December, 1997.

⁵¹ J Chang -Bloch, "Commercial Diplomacy", in E Vogel (ed), *Living With China*, p.204.

such as Westinghouse Electric stand to gain enormously from President Clinton's decision to certify before the US Congress that China had complied with the requirements of the 1985 Agreement for Co-operation between the United States and China Concerning Peaceful Uses of Nuclear Energy. This allows for bilateral co-operation on nuclear issues (such as decontamination and decommissioning), but also allows US companies to make inroads into a nuclear power sector projected to grow faster than any other country's in the next century.⁵² The environmental implications of expanded nuclear power are clearly of great import as environmental NGOs call on China to turn to hydroelectric power, wind power and natural gas, which would probably also entail greater self-sufficiency.⁵³ In sum, US-China environmental co-operation must be viewed in terms of the broader global responsibilities of the world's two greatest polluters. The US may have to take the greater responsibility as the most consistent, and historically pre-eminent, polluter and as architect of a world order in which the environment has been long seen as merely an instrument to satisfy the appetite of unsustainable levels of consumption. While such co-operation with China is, in many respects, beneficial, it is crucial that we keep in mind the fact that the US overwhelmingly participates in 'technological fixes' and 'end of pipe' solutions to China's vast environmental problems which are primarily structural. Instead of encouraging endogenous projects which help China's economic development move forward within a specific context of severe ecological restraints, the technical approach of neo-liberals instead prioritises the opening up of the Chinese market and modes of deregulation which can, in the long term, hamper central government attempts to control pollution. Although the US recognises the ultimate inefficacy of subsidising highly pollutant industries and encourages actual policy changes on the environment, such changes

⁵² US Department of Energy, Press Release, "US and China Broaden Cooperation on Nuclear Energy and Nonproliferation", at <http://apollo.osti.gov/doe/whatnew/pressrel/pr97119.html>.

⁵³ Friends of the Earth, "Funding Global Warming in China", at <http://www.foe.org/global/worldb/coal.html>.

do not relate to China's mode of development as this would challenge the global ideology of neo-liberal capitalism. Instead, the US has encouraged a system of market pricing which will lead to greater efficiency in the use of energy by lowering its use and creating a move away from inefficient coal boilers. Significantly, however, it will also "create an incentive for the use of new technologies and allow these new technologies to be effective."⁵⁴ The US, unsurprisingly, is the leading manufacturer of such technologies and this strategy is inexorably intertwined with the WTO agenda of securing greater market opening. Ironically, it is the increased competition between Chinese provinces which renders the task of sustainable growth so difficult due to the costs associated with implementing environmental standards (as will be discussed below). Moreover, though it is true that certain market externalities relating to environmental needs may be captured through pricing it is also true that private companies, under such circumstances, are likely to pursue short-term strategies dictated by the global financial markets, rather than engage in the long-term investment so crucial to China's environmental future.⁵⁵ A continued role for the state seems crucial here in enforcing such commitments, contrary to conventional neo-liberal wisdoms. At present, the US adopts the highly contradictory position of condemning the circumvention of environmental standards while encouraging China to dismantle the regulatory tools associated with state intervention. In the environmental sphere such contradictions cannot remain indefinitely, for the health and future of US citizens are at stake if China's environment goes seriously awry.

⁵⁴ A Frank, "The Environment in US-China Relations: Themes and Ideas from Working Group Discussion on Energy Issues", in Frank (ed), *China Environment Series*, p.37.

⁵⁵ H Hughes, "Development in Asia: A Fifty Year Policy Perspective", *Asian Development Journal*, Vol.1, No.1, 1994, p.18.

The Role of US/Western Environmental NGOs in US-China Relations

The part played by US-based NGOs in determining the nature of America's China policy and, indeed, China's own environmental conduct is extremely difficult to ascertain. This is mainly due to the fact that the vast majority of NGOs operating in the US are very much caught up in a US political structure characterised by systemic gridlock. The impact of such groups within China, meanwhile, is conditioned by the limited scope for foreign NGO activity due to the virtual absence of a functioning civil society (see chapter 4). Thus most US-based NGOs have focused upon mobilising opinion among US citizens and politicians in order to block funding for projects in China deemed environmentally destructive. Most often, this entails lobbying the US government directly or else pressurising members of the government to derail programmes from multilateral lending institutions which contribute to damaging the environment. As Manuel Castells notes, the "Group of 10" environmental NGOs which gained prominence in the 1980s, and include such pivotal environmental NGOs as the Sierra Club and the Environmental Defence Fund (EDF), came to define the nature and approach of US environmentalism in the 1980s.⁵⁶ Such groups operate "within reasonable parameters of what can be achieved in the present economic and institutional system."⁵⁷ Thus, they conform to the American pragmatic tradition of 'muddling through' and display a marked indifference to prescribed ideologies. Despite their reticence in attacking the limitations of neo-liberal approaches to the environment, such groups do serve an important function within the democratic process, especially due to their emphasis on activism and obtaining concrete results. In terms of US-China policy, US-based NGOs have been fairly successful in making a direct impact on an issue to issue basis. Friends of the Earth (FoE) have been involved, for

⁵⁶ M Castells, *The Power of Identity*, London, Blackwells, 1997, p.113.

⁵⁷ *Ibid.*, p.114.

over ten years, in fighting China's three Gorges Dam project and in convincing the US Eximbank to refuse funds to US companies bidding for contracts related to its construction.⁵⁸ This forms part of a broader monitoring by FoE of US agencies, such as the Eximbank and OPIC, to make sure they adhere to environmental considerations. FoE has also been extremely critical of World Bank loans to China such as those providing some \$750 million to build the new Zouxian and Yanshi Thermal Power Stations which are heavily reliant upon coal burning as opposed to clean air technologies.⁵⁹ NGOs, especially FoE, have also drawn attention to the World Bank's funding for highway construction in China - most notably a \$270 million loan for the Shanghai-Zhejiang freeway. Most significantly, FoE have illuminated the fact that since 1990 the Bank has provided five times more money to fund Chinese highways than it has to fund Chinese railways.⁶⁰ Clearly the role of the US government is central here because it, more than any other government, encourages the neo-liberal mindset of the Bank and the belief that market activity, on the whole, should not be subjected to rigorous controls. This global approach also allows US environmental NGOs to make an impact upon China's environment and to challenge neo-liberalism without becoming bogged down in the quagmire of domestic US politics. The important point here is recognition of the fact that US structural power is as often exerted via global institutions as through the various agencies of the US state itself.

The issue of 'common global environmental standards' has been a constant irritant in US-China relations but is central to the goals of environmental NGOs. Again, we really need to move here beyond analysing US-China relations in bilateral terms, precisely because the long-term environmental agenda of oppositional social forces is acutely focused upon both the

⁵⁸ "Inventory of Environmental Work in China" in A Frank (ed), *China Environment Series*, p.86.

⁵⁹ Friends of the Earth, *Funding Global Warming in China*.

global reach of transnational capital and the globalisation of environmental risks. We argue, however, that this entails a move by many US-based NGOs towards a more coherent structural assessment of the current situation. Otherwise, countries such as China will continue to view the entire movement as synonymous with US hegemony. Indeed, it often appears in the developing world that environmental NGOs are merely doing the bidding of US multinationals selling green technologies. As with the debate over global labour standards (see chapter 4), the suspicion of protectionism abounds in China with US producers seen to be using NGOs as a vehicle to pass on regulatory costs to the developing world and stave off competition. Though this paints a false picture, and underestimates the very real conflicts between even mainstream environmentalists and producer interests in the US, it does illuminate the need for green movements to link environmental degradation explicitly with the deregulating and privatising agenda of certain sectors of the US government and US business. So long as these also remain rules of the game at the global level China is unlikely to make the changes necessary to avert further environmental disasters.

The Environmental Defence Fund (EDF), which has championed the idea of common global standards, has also drawn attention to the fact that, as with human rights, the US's highly organised environmental lobby has often been undercut by European and other governments. For instance, when the US Eximbank was persuaded to withhold funds for the Three Gorges Dam project, the German company, Hermes, approved \$800 million in loans for the project while other guarantees from agencies in Japan and other European countries quickly followed.⁶¹ In short, the US is probably, if only for institutional reasons, often more responsive to environmental lobbies than other democracies where environmental issues are

⁶⁰ Friends of the Earth, "Paving the Way for Highways in China", at <http://www.foe.org/ga/roads.html>.

⁶¹ Environmental Defence Fund, *Common Global Environmental Standards Sought*, at

frequently decided behind closed doors and where information is less readily available to concerned citizens. Let us now move on to examine the nature and scale of China's environmental crisis to elucidate the need for a more cooperative response from both the US and Chinese governments.

China's Environmental Crisis

China houses one fifth of the global population and the second half of the twentieth century has been one in which China's leaders have sought to grapple with a severe mismatch between population growth, on the one hand, and natural resources, on the other. Between 1958-1961 Chairman Mao attempted to put the people to work during the Great Leap Forward and to tailor the Marxist experiment to Chinese conditions, especially its vast rural population. The results were disastrous for China as the project developed into an all-out attack on modernity, bourgeois technocracy and intellectualism, with China's students being taken from urban centres and sent into the countryside to "take root, flower, and bear fruit."⁶² Food shortages followed as crops were sown often without basic levels of agricultural expertise, causing long-term soil erosion which rendered land unproductive for years to come. Shortages in food, clothing, and fuel also followed as natural disasters (typhoons, floods and droughts,) compounded dogmatic ideological decisions in producing exceptional hardships for the Chinese people. Up to twenty million people lost their lives. This experiment deviated in important respects from conventional Marxism and, as Deng remarked in 1985, "isolation landed China in poverty, backwardness and ignorance."⁶³ The Cultural Revolution meant that recovery was stalled until the early 1970s by which time Mao's power base had begun to wane

http://www.edf.org/pubs/EDF_Letter/1998/Apr/c_dam.html .

⁶² J Teufel Dreyer, *China's Political System: Modernization and Tradition*, London, Macmillan, 1996, p.96.

and conflict with the Soviet Union further opened China to US influence and greater pragmatism in developing the economy. Thus, China's struggle to control an often inhospitable and highly volatile natural environment has been a continuous feature of the CCP's crusade to modernise. Often China's leaders have found themselves operating against nature, rather than harnessing its constraints and possibilities to a project which learns from some of the West's mistakes of the previous century and the early parts of the present one and thereby avoids the type of industrial development which damages the environment irreparably. We argue below that the availability of US clean air technologies, among other factors, means this no longer need be the case.

In 1991 a Chinese scholar, He Bochuan, wrote an extremely provocative book which predicted that China's current modernisation, far from solving the problems exacerbated by Mao's brand of Communism, is moving China ever closer to the precipice of ecological catastrophe. For Bochuan, unrestrained market forces and the drive to short-term profits, like Mao's myopic drive to Communist utopia, shows little respect for the natural environment. As towns and industries grow in size arable land and water resources are diminishing while soil erosion, desertification, salinisation continue to render large swathes of existing land infertile. Air pollution levels are now reaching life-threatening proportions in several Chinese urban centres with the problem of acid rain (see section on the regional implications below) adding to a regional and global crisis which must be solved soon. Much of China's pollution stems from high levels of reliance on coal burning in energy production, meaning that some 500 cities in China now fall short of World Health Organisation (WHO) air quality standards. Indeed Beijing, Shanyang and Xian are three of the top ten most polluted cities on the globe.

⁶³ Deng, quoted in R Gilpin, *The Political Economy of International Relations*, Princeton, Princeton University Press, 1987, p.294.

Coal burning in these urban centres accounts for a staggering 75% of all pollutants entering the atmosphere, producing 14.14 million tons of soot, 18.25 million tons of sulphur dioxide, and 11.63 million tons of industrial dust each year.⁶⁴ It is further estimated that over 90% of urban ground water and 25% of fresh water is contaminated due to inadequate waste disposal investment by the Chinese authorities.⁶⁵ In 1996, moreover, respiratory disease became the primary cause of death in China's rural areas due to searing levels of pollution.⁶⁶ Add to this the prospect of further climate change and the concomitant problems of natural disasters and, in Bochuan's view, a full-scale ecological breakdown may well result.⁶⁷ In August 1998 China was struck by serious flooding which claimed many lives and will cost the government some £15 billion in repairing the damage.⁶⁸ Such floods are portentous indeed, in the context of the debate on climate change, because the Chinese government admitted, in August 1998, that the floods were largely caused by deforestation. According to the Worldwatch Institute in Washington, 85% of the forests along the Yangtse River basin have now been destroyed. Not until 1998 did the Chinese ban logging in the upper Yangtse, though the move is a positive one.⁶⁹

Forests are viewed by many environmentalists as the key to stabilising China's, now fragile, ecosystem due to their twin function in stemming flood water and alleviating drought.⁷⁰ The Intergovernmental Panel on Climate Change (IPCC) views China as being particularly vulnerable to rises in global sea levels concomitant with climate change. Due to the fact that a

⁶⁴ "Summary of Working Group Discussions on Energy Issues in China" in Frank (ed), *China Environment Series*, p.40.

⁶⁵ Maddock, *Environmental Politics and Policies in the Asia-Pacific*, p.222.

⁶⁶ *Ibid.*, p.224.

⁶⁷ See H Bochuan, *China on the Edge*, San Francisco, China Books and Periodicals, 1991.

⁶⁸ The financial scale of the flood damage was reported on the BBC's Nine O'clock News, 26 August, 1998.

⁶⁹ Cited in T Radford, "Political Watershed", *The Guardian*, September 2, 1998.

significant proportion of China's population and industries are sited on low-lying alluvial plains and the deltas of its major rivers, an increase in sea level of just 50cm could, the IPCC predicts, submerge an area of 40,000 square kilometres.⁷¹ Concerns also abound within China over the question of food production and the environmental/human impact of future shortages. China's government has been largely unwilling to open its agricultural sector to global market forces despite much pressure from the US for it to comply with WTO rules. Indeed, state control over grain (a staple product which has long been of political centrality to the CCP's development strategy) was largely reasserted in 1994 following a brief flirtation with the market in the early 1990s. These concerns were fuelled by the neglect of grain sowing in many provinces by local entrepreneurs and state governments more concerned with profitable fruit and vegetables sold on the global market.⁷² The resultant imbalances between population levels and sustainable food production was encouraged by the new culture of producing for profit alone which has been exacerbated by the strong US push for market opening in an area which still requires concerted state intervention. In 1992, the Chinese government did attempt to liberalise the grain market but was hit by a crisis when, in 1993, a decline in rice output generated panic buying in major cities to which the markets were unable to respond. Subsequently, the government called a halt to rice and maize exports while announcing a new series of state measures to stabilise production and market supplies.⁷³

⁷⁰ *Ibid.*

⁷¹ M B McElroy and CP Nielsen, *Energy, Agriculture and the Environment*, p.225.

⁷² F Crook, "Grain Galore", *The China Business Review*, Sep-Oct 1997, pp.8-9.

⁷³ C Findlay and A Watson, "Economic Growth and Trade Dependency in China", in G Segal and D Goodman (eds), *China Rising: Nationalism and Independence*, London, Routledge, 1997, p.121.

The Three Gorges Dam Project

The Chinese government's insistence on constructing the Three Gorges Dam is, in many respects, symptomatic of a commitment to modernisation and development at all costs. The Dam is largely the product of irredentist tendencies within the CCP which view the Dam as a national virility symbol. It also provides a specific example of the physical uprooting of peoples from their social, cultural, and economic heritage and of China's negation of regional and global responsibilities in protecting the environment, given that international opinion is firmly set against the plan. The project involves the submergence of up to 15 counties in Sichuan under water - a total of 503 square km. It also entails the forced resettlement of over 1.3 million people living in the proximity of the stretch of the Yangtse River where the project is being built. Ancient towns, farmland, and temples will all be lost and those affected have, unsurprisingly, been given no say on the matter.⁷⁴ Somewhat perversely, the dam will generate electric power for "industrially advanced central and eastern China", with Sichuan gaining "no direct benefit from the project."⁷⁵ Again, this illustrates the fact that China's poorer regions are viewed in solely instrumental terms within the context of a modernisation drive augmenting geographical, cultural, and class divides at a heady pace. The effects on the indigenous population of Sichuan and traditional methods of agriculture may well be devastating, not only because altered water conditions may destroy local methods of irrigation, but also due to the fact that the project delinks local communities from established political allegiances.⁷⁶ The social forces unleashed by such ruptures in the rural way of life in China may well unleash oppositional social forces supplementing those discussed in chapter 4.

⁷⁴ "Stopping the Yangzi's Flow", *The Economist*, 2 August, 1997.

⁷⁵ L Hong, "Sichuan", in D Goodman (ed), *China's Provinces in Reform: Class, Community, and Political Culture*, London, Routledge, 1997, p.213.

The Three Gorges Dam project is, moreover, only the most visible of a whole series of projects and developments which decimate local communities. For instance, the building of the Sannexia Dam required the forced migration of some 280,000 people, with over 50% remaining in a state of desperate poverty.⁷⁷ As noted above, the Three Gorges Dam has been the focus of sustained campaigns by US-based NGOs which have, largely successfully, sought to block funding for the project. A key feature of China's current problems, however, is rooted in the unwillingness of the leadership to admit that the macro-environmental process of climate change is occurring. These objections are more political than scientific, as will be demonstrated below.

Issues of Climate Change in US-China Relations

1991 China signed the Montreal Protocol which called for an end to the use of chlorofluorocarbons (CFCs) by developed nations by 2000 and by developing nations by 2010. China's leaders, however, have been adamant that such targets are unachievable without foreign aid and technology and a truly multilateral approach to solving these problems such as acquiring enough clean technology to substitute the ozone-depleting freon gas exuded by millions of fridges in China.⁷⁸ In many senses, we need to take into account the global structures which reinforce China's deep-seated antipathy to many multilateral initiatives. This is because China's leaders, up to a point, have a very credible argument. Nowhere is this clearer than in the ongoing debate and negotiations over greenhouse gases and climate change. As one US Environmental Protection Agency official put it in relation to environmental

⁷⁶ E Young, C Hunt and RG Ward, "The Environment, Traditional Production and Population" in G Thomson (ed), *Economic Dynamism in the Asia-Pacific*, London, Polity, 1998, p.306.

⁷⁷ Maddock, *Environmental Politics in the Asia-Pacific*, p.230.

⁷⁸ Teufel-Dreyer, *China's Political System*, p.252.

discussions with China, "when climate change is mentioned the mood changes."⁷⁹ China's leaders believe, probably wrongly, that the US and other Western nations are finessing the scientific evidence on climate change to curb growth levels in the developing world which threaten their competitiveness, thereby transferring the costs of the West's historic environmental misdemeanours on to others.⁸⁰ Thus China has taken a confrontational line on the Framework Convention on Climate Change (FCCC) agreed at Rio because it negates the West's responsibility for taking the lead on greenhouse gases due to its longer track-record of pollution and is viewed as a "mechanism for major industrialised countries to escape responsibility for controlling profligate per capita emissions in their own economies."⁸¹ Contrary to the impression of many Western observers, however, China acted remarkably quickly formulating its Agenda 21 plan and has moved to initiate national environmental standards to a far greater extent than other developing countries. Perhaps the key problem is one bound up with political decentralisation and the loss of Beijing's control over the economic reform process to regional and local elites. This process is, ironically, characterised also by enhanced authoritarianism in the political/ideational sphere which prevents local Chinese communities and ordinary people from reasserting control over local environmental problems. Thus China's ability to deal with pressing environmental problems is retarded both by an outmoded notion of national development (still a largely Fordist conception) wedded to a structural inability to react to changes occurring in the global economy and bound up with the state's systematic suppression of access to information and knowledge.

⁷⁹ Interview, Environmental Protection Agency, Washington DC, 2 December 1997.

⁸⁰ The evidence on climate change is not the issues here. The debate, it seems to me, relates to the fair distribution of global responsibilities and the less than credible position of the USA. As one EPA official told me, "the US cannot really preach when its per capita emissions are so much higher than China." Interview, Environmental Protection Agency, 2 December, Washington D.C., 1997.

⁸¹ McElroy and Nielsen, *Energy, Agriculture, and the Environment*, p.237.

Implementing Environmental Reforms in China

Following the 1992 Rio Conference China, as indicated, was one of the first countries to complete its 'Agenda 21' Plan for Sustainable Development. Agenda 21 opened up the possibility of multilateral funding for China's environmental clean-up. China's environmental response included a 'Priority Programme' of sixty-two projects which required international financial assistance - twenty of which had begun by December 1995.⁸² In 1994 China's National Environmental Protection Agency estimated that \$5 billion per year would be needed to bring ongoing pollution levels under control, while around \$200 billion would be required to clean up existing damage.⁸³ A serious problem for China, however, remains both the overall lack of political weight attached to environmental issues and the increasing decentralisation of power which seriously hampers China's compliance with, and enforcement of, international agreements such as the Montreal Protocol and Agenda 21. As Shirk points out, the Chinese leadership have tended to appropriate 'Chinese characteristics' to their approach to environmental protection which usually means "an environmental protection policy...that does not impede economic growth."⁸⁴ As stressed above, the Chinese leadership continues to see economic development in terms of large-scale industrial projects. Castells has noted that China still equates progress and development with "machines" and national virility symbols, such as the Three Gorges Dam (discussed above). The fact that the West is moving to a service economy (nearly 80%) based on human and social capital (skills and knowledge) marks a break with productivist models engendered by the industrial revolution.⁸⁵ US policy towards

⁸² *Ibid.*, p.236.

⁸³ Teufel-Dreyer, *China's Political System*, p.252.

⁸⁴ S Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, Washington D.C., Brookings Institution, 1994, p.83.

⁸⁵ M Castells, *The End of the Millennium*, London, Blackwells, 1997, p.306. Castells points out China has been very slow in developing an indigenous technological infrastructure. It is also handicapped by its closed

China, and that of other Western governments, would do well to stress the benefits of developing a Post-Fordist economy from scratch which relies upon human capital and which is relatively friendly to the environment.

China's central government cannot hope to regulate semi-autonomous municipal and regional governments while it continues to propagate an ideology of unfettered economic growth at the macro level. Jahiel, then, rightly locates China's environmental malaise at the structural/normative level:

the structural and normative emphases on production for profit have affected even those whose task it is to protect the environment from the ravages of the market...This will continue to be the case as long as the norms of the social system continue to emphasise economic growth and individual profitability above such other values as environmental quality, sustainable development and the collective good.⁸⁶

Taking such trends into account we begin to understand the fissures which exist in China between the NEPA and a multiplicity of Environmental Protection Bureaus (EPBs) which seek to enforce national regulations (such as the Discharge Fee System which fines polluters exceeding certain levels of waste disposal)⁸⁷, but are subject to budget and political control by local governments hostile to anything seen as threatening economic growth.⁸⁸ With over 50% of the Chinese economy now in the private sector, despite a skeletal legal infrastructure, government intervention is becoming more problematic. For instance, China's banks, now increasingly concerned with the commercial sector of the economy, made clear in the early 1990s that they were unwilling to maintain their crucial role in seizing owed discharge fees

political system inimical to the levels of open interaction and feedback necessary in a network society. This has made China structurally reliant upon Western countries to supply the necessary expertise and training.

⁸⁶ A R Jahiel , "The Contradictory Impact of Reform on Environmental Protection in China, *The China Quarterly*, Vol.1, No.49, 1997, p. 85.

⁸⁷ *Ibid.* , p.85.

⁸⁸ McElroy and Nielsen, *Energy, Agriculture and the Environment*, p.236.

from companies contravening NEPA regulations. Thus local EPBs had no administrative mechanism through which they could successfully punish enterprises flouting environmental standards.⁸⁹ The rescinding of central controls over the economy, therefore, may well engender dire environmental consequences by creating a political vacuum in terms of environmental responsibility. The question is: can Chinese society reassert control over its own environment despite political authoritarianism within and the forces of economic globalisation without?

What Role China's Environmental NGOs?

We have already discussed the fact that the prospect of NGOs functioning as a corrective to state power in China is severely limited due to the considerable infrastructural power of the state bureaucracy, at both the local and national level, and the growing power of capitalist elites with strong links to the forces of global capital (see Chapter 5). It is debatable, then, whether or not China's home-grown environmental NGO community will be able to manufacture a credible and autonomous voice in the near future or forge necessary alliances with other social forces in any future emerging civil society.

Nascent environmental NGOs within China have, thus far, tended to buttress and legitimise Prime Minister Zhu Rongji's programme of systematically dismantling China's state sector. For instance, Chinese environmental pressure groups, such as Friends of Nature (the first environmental NGO), have been campaigning to close down state-owned enterprises which cause widespread pollution. An example here was a high profile campaign to close down the Shougang steel mill in Beijing due to its damaging emissions of sulphur dioxide, nitrous oxide,

⁸⁹ Jahiel, "The Contradictory Impact of Environmental Reform in China", p.102.

carbon dioxide, and damaging dust emissions.⁹⁰ This campaign also served, however, to justify the privatisation policies announced by Zhu Rongji at the CCP's 1997 conference. Furthermore, we must see this as the real reason why such environmental groups are encouraged or tolerated.

There are, according to Elizabeth Knup, three types of environmental NGOs operating in China at present. The first group consists of Government-Organised NGOs (GONGOS) and tend to serve as an outgrowth of the state's administrative apparatus often facilitating joint projects with foreign NGOs. As Knup notes, "Chinese government agencies cannot sign co-operative agreements with or raise funds from foreign NGOs, and therefore, they frequently form NGOs expressly for this purpose."⁹¹ Moreover, key personnel within such GONGOS tend, overwhelmingly, to comprise members of the sponsoring government agency, thus severely compromising any notion of autonomy from the state. Such groups include The China Environmental Protection Foundation (CEPF), The China Society of Environmental Sciences (CSES); The National Natural Science Foundation (NNSF), and the Heilongjiang Provincial Territory Society. According to Knup, the latter organisation is "typical" of the quasi-governmental NGOs operating in China in that it carries out official policies but in a decentralised fashion. The Heilongjiang Provincial Territory Society, founded in 1994, is committed to a four-year contract with two US NGOs and two branches of the Chinese Academy of Social Sciences in the development of a sustainable land use plan for the Ussuri River watershed. The provincial authorities, however, created the Territory Society specifically in order to carry out the joint project, allowing them to allocate provincial funds to

⁹⁰ "Dinosaur Rescue: A State Steelmakers Painful Makeover", *Business Week*, October 20, 1997.

⁹¹ E Knup, "Environmental NGOs in China", in Frank (ed), *China Environment Series*, p.11.

a notionally non-governmental body. Such NGOs, then, are indistinguishable from the local political power structure.⁹²

A second group of NGOs are, using Knup's definition, "individual organised NGOs." These groups, though not *de facto* government agencies, are closely regulated by the Ministry of Civil Affairs and rely on sponsorship from the Communist Party's National Environmental Protection Agency (NEPA). Such groups are, however, usually formed by individuals committed to environmentalism but who, equally, have close connections (*guanxi*) within the CCP at either national or provincial level. Groups, such as Friends of Nature (FON), have served the notable function of raising awareness of environmental degradation with magazine articles in *China Women's Daily* and *China Youth Magazine* and a weekly television slot entitled *Time For Environment*. Other such "individual organised NGOs" include the Centre for Biodiversity and Indigenous Knowledge (CBIK); the Beijing Environment and Development Institute (BEDI); and the Institute of Environment and Development (IED).⁹³

The final group identified by Knup is that of "voluntary organisations" which are not registered with the Ministry of Civil Affairs and more closely reflect an oppositional force functioning in civil society. At present, however, such groups are a loose and informal network of "individuals with like interests" who "come together voluntarily on an irregular basis to work together towards a common goal."⁹⁴ Such groups, which are still embryonic, may in time gain a popular foothold as they form social bonds with indigenous peoples and the rural population in particular, as well as those in the urban population suffering from the side effects of pollution. Knup notes the work of the Green Earth Volunteers (GEV) who have

⁹² *Ibid.*, p.11.

⁹³ *Ibid.*, p.13.

⁹⁴ *Ibid.*

travelled, using their own finances, to Inner Mongolia to plant trees in the Engebie Desert and who have taken time to teach in class-rooms disseminating their environmental knowledge.⁹⁵

In Gramscian terms, we may view such groups and individuals as organic intellectuals, or educators, attempting to articulate, by practical and educational means, the environmental disaster which may accompanied China's current drive to modernisation unless it is accompanied by greater national and international regulation. However, without the financial support of a political organisation and the spectre of an oppressive state the task of such voluntary groups will be difficult indeed.

In sum, though the Beijing leadership is willing to take on board domestic, regional, and global concerns about the environment, it is unwilling, and increasingly unable, to break the productivist paradigm of economic growth and the consumerist norms which accompany it due to China's new commitments to market economics and strengthened ties with a competitive global economy. Environmental NGOs form the nucleus of a potential social counterforce and an indispensable source of education on environmental issues. However, their political bargaining power is, at the time of writing, fairly negligible. This makes the role of transnational actors and agencies even more crucial in making sure environmentally unfriendly activities are regulated both at the regional and global level.

The US and the Regional Dimensions of China's Environmental Crisis

The challenge to US hegemony in the Asia-Pacific region may well gather pace as the implications of China's economic growth illuminate the need for regional efforts to combat environmental degradation. Ecological problems in the Asia-Pacific stem from a rapid increase in population and urbanisation, a significant surge in energy demand, and a severe

⁹⁵ *Ibid.*

deterioration of natural resources and biodiversity in the region.⁹⁶ It is estimated that by 2010 around 200 cities in Asia will have populations of over 1 million.⁹⁷ Such increases in urban populations, along with the increased density of rural populations, will require much higher levels of “formal public investment” to ensure adequate health standards and environmental impact (water and sanitation standards).⁹⁸ An increased regional emphasis on ‘spatial planning’ will become increasingly necessary in order to bring about the kind of self-sustaining urban regeneration which alleviates the exploitation of marginal land forest, watersheds, and fisheries and concentrates instead on technological innovations which do not demand further assaults on the natural environment.⁹⁹ Yet such measures, at the time of writing, are precluded by the process of economic globalisation which deters initiatives likely to deter growth or dampen consumption and is tailored to immediate profitability, rather than broader developmental needs. In China, for instance, support for environmental research has waned due to market forces which increasingly delimit the context of political debate to commercial criterion.¹⁰⁰ This is replicated at the regional level where the US-driven APEC project suffers from a dearth of serious environmental research and co-operation commensurate with the time and effort given to market research and the endless quest for profits.¹⁰¹ As the architect of APEC, the US has a special responsibility here but, as Lyuba Zarsky of the Nautilus Institute which monitors APEC’s environmental [non]agenda notes,

⁹⁶ J Park, "APEC and ASEAN: The Future of Asian Environmental Regionalism", *Environmental Politics*, Vol.6, No.3, 1997, p.163.

⁹⁷ Hughes, "Development in Asia: A Fifty Years Policy Perspective", p.7.

⁹⁸ *Ibid*, p.9.

⁹⁹ *Ibid*.

¹⁰⁰ D Murray, *American Interests in China's Environment*, p.7.

¹⁰¹ For instance, an official at the EPA told me that it is usually more productive to deal with the PRC, and Asian nations generally, bilaterally because APEC "takes forever to get things done." This goes some way in confirming our argument that the US approach to Asian regionalism hardly contains an environmental agenda

“while the official State Department view is that environmental co-operation promotes US security interests in Asia, there is little investment in understanding either the ecological issues or how best to conduct environmental diplomacy in the region.”¹⁰²

Due to the ambiguous nature of APEC as an institution and its restricted agenda of market opening (reflected by the US preoccupation with narrow economic concerns), no serious environmental momentum has emerged in the region. Events such as the 1996 Ministerial Meeting on Sustainable Development in Manila ultimately remain talking shops so long as environmental action is subjugated to, or co-opted by, the very commercial interests ruining the natural environment and, even more crucially, so long as they exclude the marginalised and the poor (the usual victims of environmental decay) while upholding the authoritarian and bureaucratic power structures of the region's elites. The neo-liberal trade agenda foisted upon APEC (which will be discussed at length in the following chapter) has largely circumscribed large-scale environmental initiatives at the regional level by promoting an elite and non-democratic regionalism dictated by US interests. As again Lyuba Zarsky has noted, “the agenda-dominating Western APEC ministers tend to construe the environmental issue as ‘Asia has problems, we have solutions’ with the solutions typically involving financial gain in the form of exports of environmental goods and services.”¹⁰³ Many APEC members have called for a focus on development needs, financial transfers and even technological give-aways, while the US remains adamant that any solution must be reached through commercial markets. In June 1997 China led the way in presenting its own initiatives to the Toronto APEC meeting on the environment, raising the possibility of an Asian regional dialogue determined by specific

at all. Such an agenda, one would surmise, may undermine the core assumptions of neo-liberalism - namely that free markets are the panacea to all social, economic, and environmental problems.

¹⁰² L. Zarsky, "Heading for the Doldrums? APEC and the Environment", in *Connectivity: Asia Pacific Trade, Environment and Development Monitor*, at <http://www.nautilus.org/trade/monitor/apec/index.html>.

environmental needs within the region, rather than America's determination to open markets with "a crow bar if necessary" no matter what the long-term costs.¹⁰⁴ At present, however, resistance to the institutionalisation of APEC, largely due to suspicion of US hegemonic designs in the region, has narrowed the possibility for collective action by Asian states. As the results of coal burning in China, and the emission of sulphur dioxide and carbon dioxide (CO₂ emissions) into the atmosphere intensify, regional tensions may well grow. In turn, the exigencies of ecological interdependence and its consequences, negated by the neo-liberal trade agenda of APEC and the geo-politically oriented ASEAN, provide the impetus for new Asian cross-border cooperation. However, the inertia thus far at the regional level may prove costly, given recent evidence from both South Korea and Japan that the source of many of their own environmental problems are located in the PRC.

China's increasingly worrying emissions of pollutants would be best addressed, then, within a regional developmental context in recognition of the fact that pollution recognises no borders but also that there are many commonalities between the environments of the Asian nations.¹⁰⁵ In this sense the Asian states may have to form their own agenda on the environment despite US protestations. Japan has already taken a fairly responsible lead with respect to China's environment, even if this lead is infused with a large degree of enlightened self-interest. Under the auspices of Japan's Ministry of International Trade and Industry (MITI) a Green Aid Plan was set up in the early 1990s and has fostered long-term joint ventures and licencing agreements with Chinese business'. As Pratt and Montgomery stress, this strategy, unlike that of the US, "emphasizes support for less costly, simplified technologies, while Japan's Overseas

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.* Comment made by anonymous US official and quoted by Zarsky.

¹⁰⁵ In the stampede to development the four tiger economies, China, and Indonesia have all experienced severe industrial pollution and threats to public health on a scale previously unknown in human history.

Economic Co-operation Fund (OECE) has provided long-term and low interest loans.”¹⁰⁶ Thus Japan, though undoubtedly seeking to procure market share in China in advance of competitor economies such as Germany and the US, must also be seen to be doing so on terms far more sentient to the long-term nature of China’s environmental problems. This is a similar story to the wider geographical scope of Japanese FDI discussed in chapter 3. In sum, new models of development must increasingly reflect local and regional factors rather than a global neo-liberal ideology which is blind to distinctive social, cultural, and institutional traditions. China’s environmental crisis may well be a defining issue in encouraging regional leaders to seek Asian solutions to Asian problems despite the reservations of the US.

Conclusion

The environmental malaise which accompanied the drawing to a close of the twentieth century derives from a commitment to unfettered economic growth and global consumption levels which are, ultimately, unsustainable. In important respects, of course, socialist nations mirrored this exploitation of the natural world in their mimesis of productivist models of industrialisation and their inability to break the cycle of centralised and bureaucratic economic strategies which destroyed indigenous communities and ravaged the environment. Ironically, it is the US and the capitalist countries which have partially broken this course of events through the progressive development of post-Fordist production which relies more and more on services and technology than heavy industry. The continued hegemony of the US in terms of the development of technology gives it continued leverage to dictate environmental politics at a global level and, as we have seen with regard to clean-air technologies, the power to diffuse environment-enhancing knowledge on its own terms. In this sense, US structural

¹⁰⁶ Pratt and Montgomery, *Green Imperialism*, pp.90-91.

power in the global economy will play a huge role in whether, or not, China is able to emerge as a green economy. In this sense China represents a litmus test for the US and the West in terms of whether they are mature enough to view China's problems beyond the territorial mindsets of national competition and, instead, to view China's environment as a global challenge which cannot be solved by recourse to a form of politics fast diminishing in its efficacy under conditions of economic globalisation.

The environmental debate, then, is an innately global one and, as we have already established, it is becoming increasingly problematic to discuss bilateral relationships in terms of state actors who belong to circumscribed political communities. Thus environmental standards must be taken out of the domain of bilateral relations and moved to the transnational/global level. The goal here would be new regimes of global regulation reached by consensual means and informed by public values rather than the geo-economic nationalism associated with the competitive trading system under neoliberalism. Herein, lie the reasons why the Rio and the Kyoto Summits were failures. They reified existing power structures and failed to link the questions of environment, development, population and consumption in a holistic way. Only such an explicit linkage could reflect the reality of one eco-system under threat from each of the aforementioned trends at the level of world order. This involves the bringing together of multiple perspectives on the environment - especially the perspectives of those most reliant upon the land and most affected by economic and social upheavals. Moreover, the idea that China can, somehow, be talked out of industrialisation, as well as environmentally damaging methods of attaining economic growth, without equal access to the institutions which determine the politics of the global economy is wholly illusory. The environmental debate, so polarised in the context of US-China relations, manifestly highlights the need for a new political strategy which, in the words of Joachim Hirsch, "should fight for the global

enforcement of a political form that transcends the dichotomy of 'nation-statehood and world-statehood', a form that would be characterized by completely new and more complex linkages between regional and global as well as central and decentral political organization."¹⁰⁷ In terms of actually attaining such a radical upheaval of global institutions and the cooperative spirit needed to underpin them it is probably apt, at the current juncture, to follow Gramsci in proclaiming a pessimism of the intellect and an optimism of the will.

¹⁰⁷ J Hirsch, "Nation-state, International Regulation and the Question of Democracy", *Review of International Political Economy*, Vol. 2, No. 2, 1995, p. 282.

Chapter Six

US-China Relations within the Context of Asia-Pacific Regionalism

Introduction

This thesis has so far argued that, though US hegemony has given way to an era of US preponderance, US structural power remains substantial given US ideological control over the economic rules undergirding global institutions. Here, we seek to place US-China relations within the context of Asian regionalism and to assess the extent to which the US regional project in the Asia-Pacific has been successful in drawing China towards the regional free market. We argue that the region's evolution is currently an indeterminate process which straddles global pressures towards trade liberalisation and local regional trends towards state intervention. Drawing on the historical-sociological theories set out in the opening theoretical chapter we also argue that certain geo-political factors also remain important, especially the issue of Taiwan and the nationalist agenda of the Chinese government.

US Regionalism in the Asia-Pacific

According to Stanley Roth, US Assistant Secretary of State for East Asia and the Pacific in the second Clinton Administration, it is erroneous to evaluate US foreign policy strategy during the Clinton years in terms of bilateral relationships. This would be to misappropriate its ideational underpinnings and the broader thrust of the Clinton Administration's policy goals.¹ Roth's comments confirm the fact that following the Cold War the US has consistently been attempting to persuade governments to accept values and norms the US has already

¹ S Roth, *Asia Strategy in Clinton's Second term*, Speech before the Asia Society, US Department of State, Washington D.C., 12 December, 1997.

institutionalised (or is in the process of institutionalising) at the global level and to transmit these rules and norms through various global and regional fora.

The US has viewed the Asia-Pacific as a 'laboratory' for its Post-Cold-War vision and the transition from a system of Cold-War strategic alliances (still largely in place) to a system in which peace is secured through economic interdependence between states and markets. Such interdependency is viewed as a means of socialising states such as China by tying its leaders to regional structures and liberal norms viewed as inimical to conflict.² There is, of course, an implicit utopianism and chauvinism in the view that the adoption of American rules, social values and economic policies will, of themselves, efface differences based on historical and rivalries - between Asian states and the US and between Asia-Pacific states themselves. In many senses Asia-Pacific regionalism, in its neo-liberal guise, is a hegemonic discourse which makes *a priori* assumptions about the future trajectory of the region without recognising the validity of alternative models of social and economic organisation or the plurality of interests within the constituent states themselves.

Much realist thinking on the Asia-Pacific region, however, is concerned with the need for a new balance of power following the Cold War. China is viewed as a potential military challenger to the US in regional and global terms, while US foreign policy, it is argued, should be largely based upon a new *realpolitik* which caters to the needs of the powerful and assuages the worries of the major powers - the US, China and, to some extent, Japan³. We argue that this approach is flawed, for it completely ignores new and emerging configurations of power in the region both above and below the levels of nation-state. It makes *a priori*

² A McGrew, "Restructuring Foreign and Defence Policy: the USA", in A McGrew (ed), *Asia-Pacific in the New World Order*, London, Routledge, p.181.

³ D Stuart and WT Tow, "A US Strategy for the Asia-Pacific", *Adelphi Paper No.299*, London, International Institute for Strategic Studies, 1995.

assumptions regarding national interests and foreign policies without questioning who such interests and policies represent. Realism is, thus, an inappropriate normative theory for understanding Asian regionalism precisely because it constitutes a discourse of the empowered and refuses to countenance the idea of regionalism as an alternative narrative through which the worst excesses of globalisation may be mediated. Likewise, neo-liberalism shares the realist propensity to view the Asia-Pacific region's elite power structures as given and to view national interests and foreign policies mainly in terms of those values and norms which correlate with neo-classical models of market rationality. We follow a growing number of scholars who have conceptualised the region as a highly diverse and complex one in which a number of cross-cutting social and economic processes are taking place simultaneously, often mediated by local, or national, institutions and state-society structures.⁴

Neo-liberalism and Asian Regionalism

The neo-liberal agenda in the Asia-Pacific, which puts the issues of trade liberalisation and market access at its apex, has been reflected in the evolution of the Asia Pacific Economic Cooperation (APEC) forum. In this sense, APEC's ideological and normative underpinnings also mirror those of the WTO, discussed in Chapter 4, in that the constitutive economic rules and regulations suffusing both APEC and the WTO are largely the result of US policy preferences. For neo-liberals, "regional pacts tend to broaden and deepen GATT [now WTO] trade reforms, and in so doing often provide useful models for strengthening multilateral disciplines."⁵ Frank Gibney, in a 1993 *Foreign Affairs* article, claimed that APEC defuses protectionist tensions in bilateral relations with China and further draws China towards the

⁴ See M Bernard, "Regions in the Global Political Economy: Beyond the Local-Global/Divide in the Formation of the East Asian Region", *New Political Economy*, Vol.1, No.3,1996, pp.335-355; and R Higgott, "Ideas, Identity and policy Coordination in the Asia-Pacific", *The Pacific Review*, Vol. 7, No. 4, 1994, pp.

global economy. For Gibney, APEC and NAFTA should be viewed as indistinguishable in as much as they both serve the purpose of promoting 'open regionalism' and a new phase in US relations with the Asia-Pacific.⁶ Like the WTO and NAFTA, APEC has been used to erode national protectionism and to promote extensive trade liberalisation, deregulation, and privatisation. However, unlike those organisations, APEC's loose and informal nature gives member governments a great deal of latitude in determining its future. In this vein, it cannot be simply viewed as an American imposition upon a recalcitrant region because neo-liberal initiatives can be blocked by Asian governments. Whether the political will exists to challenge US dominance is another matter which will be broached, in reference to the Asian financial crisis, later in the chapter.

The US strategy is a sophisticated one which cannot be taken at face value even though neo-liberals and neo-realists would have us approach the organisation's evolution from a geo-economic or geo-political perspective which reduces the region to a "narrow, ahistoric, acontextual...collection of 'national units.'"⁷ At the centre of any analysis trying to shed light on the APEC forum are questions of power, politics and ideology and the ways in which they are constructed in the region. It is imperative that any critical enquiry asks who is driving APEC and for what purpose?⁸ We argue that the United States, by implanting itself firmly within the political economy of the region, is trying to prevent a rival power bloc from emerging led by either Japan or China.⁹ By tying individual Asian nations to US markets and

⁵ JJ Schott, "Towards Free Trade and Investment in the Asia-Pacific" in BA Roberts (ed), *New Forces in the World Economy*, Cambridge, Mass, MIT Press, 1996, p.224.

⁶ F Gibney, "Creating a Pacific Community", *Foreign Affairs*, Vol.72, No.5, 1993, pp.20-25.

⁷ Bernard, "Regions in the Global Political Economy", p.337.

⁸ *Ibid.* , p.341.

⁹ M Walker, *Clinton: The President They Deserve*, London, Fourth Estate, 1996. In broad global terms Walker states that the "elegance of the Clinton strategy was that the Pacific, the European and Western

global financial discipline (so vividly demonstrated during the Asian financial crisis of 1997-98) the US seeks to avert counter-hegemonic tendencies towards greater regional and national autonomy by Asian states whilst also supporting those social fractions which coalesce with the interests of transnational capital.¹⁰ In this vein, Peter Preston has argued that APEC is still shaped by Cold-War thinking and reflects the fact that the US continues to view the region as “economically threatening” and in need of being “ordered according to US agendas.”¹¹ Although there is little question that APEC is designed to project US power, it is also the case, however, that APEC represents the devolution of US hegemony and a strong element of inclusiveness which was missing in the Cold War. As Higgott points out, there are serious discrepancies between the continued ‘hegemonic mentality’ of the US and the reality of ‘hegemonic defection’ whereby US military forces have been downgraded and Asians have been encouraged to take a more proactive role.¹² Thus, it is best that we perceive the region in terms of a shift from US hegemony to new methods of sustaining US structural power in the global economy.

With regard to China, therefore, APEC can be conceived as a subsidiary of the WTO agenda and a further mechanism through which to socialise China into a liberal world order. Indeed, as part of the Bogor agreement on trade liberalisation, assented to by APEC members in 1994, and the Osaka Action Agenda, agreed by APEC members in 1995, China pledged further liberalisation of its economy which Stuart Harris views as in effect a ‘down payment’ on

Hemisphere blocs should all have one thing in common; Clinton's America was locking itself steadily into the heart of each one" in order to "sustain American global influence far into the next century." p.286

¹⁰ MT Berger, "A New East-West Synthesis? APEC and Competing Narratives of Regional Integration in Post-Cold War Asia-Pacific", *Alternatives*, No.23, 1998, p.3.

¹¹ PW Preston, *Pacific-Asia in the Global System*, London, Blackwells 1998, p.24.

¹² See Higgott, "Ideas, Identity and Policy Coordination in the Asia Pacific".

existing bilateral issues in US-China relations.¹³ As Harris further notes, China has consistently used the APEC forum to push its case for WTO entry (it is, as of November 1999, in the process of full accession) though not to an extent which has disrupted the APEC consensus.¹⁴ Thus, APEC's role in US-China relations is more than congruent with the neo-Gramscian contention that US hegemonic power has diffused to a number of regional and global institutions embedding itself as the rules and norms which underpin their functioning. Moreover, US structural power over these organisations and their representative elites, more than state to state relations, is the means by which neo-liberal political economy maintains itself as the dominant global form of capitalism. Let us now discuss the APEC forum itself in greater detail.

APEC

The APEC forum came into being in 1989 on the initiative of the governments of Australia and Japan and was viewed as a forum for the discussion of organisational issues between individual economies. However, since 1993 and the rise of regionalism as an adjunct to the wider process of globalisation, APEC has come to be viewed as a key force in advancing the US national interest in the area of trade liberalisation and been viewed as mirroring developments in the Uruguay round of GATT which resulted in the creation of the WTO. At the Bogor Summit of 1994, it was agreed that APEC nations should agree to the goals of open trade and investment by the year 2020 for the less developed countries and 2010 for industrialised APEC members.¹⁵ This agenda was taken forward at the 1995 APEC summit in Osaka, Japan, when most APEC nations committed themselves to far-reaching steps towards

¹³ S Harris, "China's Role in the WTO and APEC", in D Goodman and G Segal (eds), *China Rising: Nationalism and Interdependence*, London, Routledge, 1997, p.143.

¹⁴ *Ibid*, p.139.

trade liberalisation thereby placating US demands and harnessing APEC to the goals of the WTO. China, for instance, agreed to reduce over 4,000 tariff lines which constituted an average 30% reduction in all tariffs.¹⁶ The Osaka Action Agenda moved this process forwards in terms of providing guidelines designed to influence policy makers in the APEC countries.¹⁷ At the Manila meeting of APEC leaders in 1996, the Manila Action Plans for APEC (MAPA) were adopted and, unsurprisingly, gave a primary role to the new APEC Business Advisory Council (ABAC) in securing the implementation of the action plans on trade liberalisation along neo-liberal lines.¹⁸

In terms of understanding the *politics* of APEC and the agents driving it forward we must establish empirically the region-wide social forces determining this process. We follow Higgott in identifying a "tripartite policy community" comprising "governments, companies, policy brokers and research brokers."¹⁹ Arguably, the US has been fairly successful in fostering an elite coterie of politicians, business leaders and academics in the construction of APEC regionalism along neo-liberal lines. As argued above, APEC is not simply a US imposition, but also involves forms of consensual power in which US ideas are taken up by Asian elites. The most important players have been ostensibly non-governmental organisations with symbiotic links to the US government.²⁰ These include such elite groupings as the APEC Business Advisory Council (ABAC), briefly mentioned above, which consists of senior business leaders in the APEC nations and whose US Chairman, Robert Denham, informed a

¹⁵ J Caesar Parrenas, "ASEAN and Asia-Pacific Economic Cooperation", *The Pacific Review*, Vol.11, No.2, 1998, p.239.

¹⁶ *Ibid.*, p.240.

¹⁷ I Yamazawa, "Economic Integration in the Asia-Pacific Region", in G Thomson (ed), *Economic Dynamism in the Asia-Pacific*, p.165.

¹⁸ Parrenas, "ASEAN and Asia-Pacific Cooperation", p.241.

¹⁹ R Higgott, "The Pacific and Beyond: APEC, ASEM and Regional Economic Mangement", in G Thomson (ed), *Economic Dynamism in the Asia-Pacific*, London, Routledge, 1998, p.340.

House of Representatives Committee of his personal economic interest in APEC, stating that "my company, which is Salomon Inc, benefits greatly from economic liberalisation and enhanced trade as new opportunities for ourselves and our clients."²¹ Denham's remarks tell us a great deal about APEC's overriding function and its appeal among sections of the US business community. Moreover, the current APEC agenda of open regionalism and the push for "concerted unilateral liberalisation" stems originally from the private Pacific Economic Cooperation Council (PECC) and emerged at a 1992 PECC meeting in San Francisco. PECC was founded in 1980 by US businessmen as a means of forging business linkages across the Asia-Pacific, although it should be noted that Japanese business was also a very active participant in the 1980s.

Despite representing elite business interests the, *PECC Open Regionalism: A Pacific Model for Economic Cooperation* came to define APEC's agenda as one of tying regional economies to an "overriding interest in a rules based multilateral trading system" underwritten by the US.²² Thus the question of powerful self-interest among representatives of corporate America and their key role in APEC's unfolding cannot be overstated. This also goes some way towards accounting for APEC's rather hollow social basis and its dearth of legitimate institutional structures. Moreover, this hollow version of regionalism excludes Asia's people in a way which would be unthinkable for the European Union with its continued attempts to bridge the 'democratic deficit.' This reflects Asia's authoritarian tradition, but also the fact, already noted chapter 4, that the US is willing to acquiesce in palpably non-democratic practices in order to secure the broader goal of free trade.

²⁰ It is more fitting to view business NGOs as *de facto* diplomats under extant global conditions.

²¹ Testimony of Robert E Denham, President of ABAC, before the House Subcommittee on Asia and the Pacific, November 6, 1997.

APEC is driven also by the forces of economic globalisation and the emergence of historic changes in production, finance, and production which have brought regional economies closer together under new patterns of trade and foreign investment. For Higgott, globalisation represents a *de facto* explanation of APEC and a macro-level explanation as to why the economies of the region have become increasingly interdependent in correlation with patterns of production pioneered by Japan. APEC, we argue, is an elite and exclusionary political forum ensuring political rewards for the powerful at the expense of addressing the real socio-economic and environmental needs of the majority of the region's peoples. APEC has thwarted popular-democratic movements in the region by forging transnational alliances between authoritarian hegemonic elites in the Asia-Pacific (state elites and capitalists) and US neo-liberals, ensuring that local, regional, and indeed global power structures are upheld in an Asian region made safe for capital. In this sense APEC, or neo-liberal regionalism, is an artificial western construction which has little social or institutional basis. As the Chinese scholar Wang Jisi puts it, "this concept is seen as reflecting Washington's new regional strategy that tries to build a linkage between NAFTA and APEC or to expand NAFTA to Asia." The creation of an Asia Pacific Free Trade Area (APFTA) serves to "restrain Japan's economic expansion in the region" and "after establishing an American centred and American guided APFTA", Jisi states, "the next American aim will be to contend with a unified American community."²³ Though Jisi's views are closely tied with the political authorities in Beijing, as are the views of most Chinese social scientists, they do, at least, illuminate the extent to which China's leaders are aware of the co-optive strategies which play such a prominent part of US regionalism.

²² J Bennett Johnson, President US-PECC, *Testimony Submitted to the House Committee on International Relations Subcommittee on Asia and the Pacific*, November 6, 1997.

Of course, as will be elaborated later, profound contradictions arise due to the varying state strategies selected by individual governments in securing legitimacy for their regimes of accumulation. Thus very different models of capitalism have evolved between the US and the Asian states, reflecting "the continued power of national hegemonies in terms of national symbols and local particularities."²⁴ Nationalism often remains the key reference point for Asian people in making sense of their lives and in appropriating a sense of meaning to the world unfolding around them. Thus, historical, cultural and social differences preclude the wholesale adoption of neo-liberal policies by Asian states whose post-war development stemmed from state intervention in all spheres of social and economic life.

We should briefly mention the counter-hegemonic form of transnational politics which has emerged in opposition to APEC and which is represented by a host of NGOs in the US and throughout the region. The term open regionalism has, invariably, meant the creation of a region open to the forces of transnational capital in the economic sphere and the region's elites in the political sphere.²⁵ Ironically, this openness and non-discriminatory approach to global trade and global financial markets may be termed closed regionalism in respect of democracy and the representation of Asia's people. APEC has consistently sidestepped questions of social and economic representation and all those issues concomitant with popular democracy. There is a profound need to take heed of those social groups marginalised by a corporate/state agenda which defines the region only in terms of the socially powerful and privileged. In 1995 a summit was held in Kyoto to discuss a counter-agenda to that of the official APEC summit taking place in Osaka. This forum urged that human development be prioritised over narrow

²³ Wang Jisi, "The United States as a Global and Pacific Power", *The Pacific Review*, Vol.10, No.1, 1997, pp.5-6.

²⁴ Bernard, "Regions in the Global Political Economy", p.349.

economic growth and that freedom and democracy be given equal billing by APEC governments and a Kyoto Declaration was enunciated setting out this alternative agenda. In 1996 over 10,000 protesters were the subject of repressive state action during the Subic Bay APEC summit in the Philippines. This time the Manila People's Action Forum issued a declaration and detailed plan of action followed by groups such as the Asia-Pacific Labour Network calling for better working conditions, sustainable development and trade union representation within APEC. As Woods demonstrates, the APEC governments have so far refused to recognise these elements of the NGO community and, at the 1997 APEC summit in Vancouver, Canadian Prime Minister, Jean Chretien, even claimed that human rights had no place in a summit concerned with economic issues.²⁶ Indeed, the one point upon which all APEC leaders have consistently agreed is that politics and economics should be addressed separately, allowing the US and Asian leaders to downplay the role of ethics in determining their agenda. Significantly, the 1997 People's Summit and a 'No to APEC' gathering were highly successful in gaining media attention and raise the question of just how APEC will respond to a burgeoning community of transnational social forces contesting APEC both in its neo-liberal form and the neo-colonial implications of any US-inspired regional project at all.²⁷ What we can extrapolate from the above, then, is that APEC is an essentially US, or Western, conceptualisation of regionalism which rides roughshod over national divergence in the socio-economic sphere. It attempts to explain regionalism as a purely economic process without

²⁵ See R Garnaut, *Open Regionalism and Trade Liberalisation: An Asia-Pacific Contribution to the World Trade System*, Singapore, Institute of Southeast Asian Studies, 1996.

²⁶ I thank Ven Neralla of the Asia Pacific Center for Justice and Peace and a delegate at the Vancouver people's summit for raising this point. From conversations I also found out that the APEC leaders at the conference were surrounded by barbed wire and police armed with dogs - hardly indicative of a transparent process. It is worth pointing out that riot control is now an intrinsic part of APEC summits - usually to keep democratic grassroots forces at bay.

²⁷ L Woods, "Regional Cooperation: The Transnational Dimension", in A McGrew and C Brook (eds), *Asia Pacific in the New World Order*, London, Routledge, 1998, pp.281-84.

taking into account indigenous institutional and societal variables impinging upon the developmental trajectories of countries such as China.

Significantly, the 1998 APEC summit in Kuala Lumpur has been viewed as signifying the politicisation of the organisation, a fact acknowledged even in mainstream circles. The November 1998 summit in Malaysia brought to the fore political differences between the host nation and the US with Vice-president, Al Gore, castigating Dr. Mahathir's government for the arrest and detention of Anwar Ibrahim, the former Malaysian foreign minister. Significant also, in symbolic terms at least, was the absence of an emasculated US president besieged by a sex scandal and, in the admittedly prurient assessment of many Asian leaders, in no position to lecture anyone on moral conduct. The summit, however, also signified a deeper change in the nature of APEC and vividly illuminated cracks in the US hegemonic consensus. Both Japan and China withstood calls for further trade liberalisation in the light of the Asian crisis, while APEC itself, and the neo-liberal presumptions upon which it has thus far been premised, seemed utterly irrelevant in addressing the deep-seated regional and global questions arising from Asia's recessionary slump.²⁸ We have argued that the region has reached a turning point in its ideological, economic, and political trajectory following the Asian crisis which may usher in alternatives to neo-liberal economic strategies but which, in the interim, are likely to lead to instability and destabilising uncertainty over the future. Below we emphasise the counter-hegemonic possibilities latent in the process of regionalism and the specific problems and possibilities China's growing regional power postulates for both US hegemony and the region as a whole. One highly significant development is that of a Chinese cultural-economic sphere facilitated by the Chinese regional diaspora and its connections with the Chinese homeland.

Greater China: A Challenge to APEC?

As indicated, this chapter is explicitly concerned with examining a number of, as yet, indeterminate social, political and cultural processes which point to the emergence of alternative regional power configurations within Asia-Pacific during a period when US hegemony is giving way to more multilateral forms of power. One possible scenario is the emergence of Greater China as a regional, as well as global, challenge to US hegemony. The regional backdrop to China's development and modernisation breaches the fixed territorial mindsets which accompanied the Cold War. Its dynamics are, at once, local, regional, and global and may represent the nearest thing we now have to a model of capitalism for the informational age of technological innovation and a global network society.²⁹ Thus analysing US-China relations in terms of the Chinese mainland, the Chinese state, or localised capital negates a key socio-cultural variable which impacts heavily upon China's role in the regional and global political economy.

Conventionally, adherents of the "Greater China" concept have concentrated upon the interconnections linking the economies of Macau, the PRC, Taiwan, Hong Kong and, to some extent, Singapore. Though important, this represents a somewhat reductionist, and state-centric, spatial framework. Nevertheless, there is some significance in the emergence of China during the 1990s as a potential regional rival to both the Japanese regional model of economic development and global neo-liberalism of the US variety. Taken collectively, Taiwan, Hong Kong, and the PRC, along with regional financial networks, seem to contain all the necessary ingredients for economic dynamism. Taiwan is rich in technological and manufacturing capability with one of the largest foreign currency reserves in the world; Hong Kong possesses an indigenous entrepreneurial culture wedded to widespread expertise in marketing and

²⁸ For a good discussion see, "Shattered Summit", *Asiaweek*, November 27, 1998, p.25.

²⁹ See M Castells, *The Rise of the Network Society*, London, Blackwells, 1996. For a neo-liberal endorsement of this view, see J Naisbitt, *Megatrends Asia*, London, Nicholas Brealey Publishing, 1994.

services; Singapore's economy, dominated by ethnic Chinese, provides a ready-made communication network and pool of financial capital (Asian crisis notwithstanding); and the PRC is rich in land, resources, and cheap labour.³⁰ In 1992, Hong Kong's trade with the PRC stood at \$80 billion while Taiwan's stood at \$7.4 billion. Taiwanese investment in the PRC stood at \$6.7 billion while Chinese investment in Hong Kong stood at \$20 billion. Total cross investment between the three economies stood at some \$40 billion.³¹ There has even been talk of a Chinese free trade area and a Chinese economic community based on the mobility of capital and labour, the coordination of fiscal and monetary policies and the creation of common welfare policies.³²

It is wise to sound a cautionary note at this juncture. Much of the talk of Greater China's evolution into an economic bloc is not only mere conjecture but rests on the reductionist tendencies of neo-liberals and Western economists. Firstly, it fails to take into account the deep social and political fissures which exist between and within the composite parts of Greater China. For instance, if we are talking about the mainland integration only really includes Guangdong and Fujian provinces which are the home to China's financial classes. Secondly, it deploys the metaphor of expansion (evoking Japan's Greater East Asia Co-Prosperity Sphere) and is, thus, a convenient epithet for US mercantilists and realists who view Chinese power as a threat. Indeed, Chinese elites have steered clear of using the term for fear of unsettling the US, Japan and the ASEAN nations.³³ It is also the case that capitalist development within Greater China is far more *laissez-faire* than neo-liberal capitalism. It

³⁰ M Weidenbaum, "Greater China: The Next Economic Colossus?" in Roberts (ed), *New Forces in the World Economy*, pp. 54-55.

³¹ H Harding, "The Concept of Greater China: Themes, Variations, and Reservations", *The China Quarterly*, No. 136, 1993, p.664.

³² *Ibid.*, p.668-69.

³³ *Ibid.*, p.670.

shares none of the regulatory regimes which underpin even US capitalism. As Ling-Sum notes, "to compete for capital from Hong Kong and Taiwan, coastal communities undercut each other by providing low-cost and low-protection labour systems. Most workers.....are engaged in what one can call a highly 'flexible-taylorised' process" secured by adjusting hours and wage rates in a "capital-controlled hire-and-fire procedure" underpinned by "lax interpretation of labour standards/laws in the region."³⁴ The point here is that the Greater China economy is not necessarily a progressive alternative to US style capitalism which is reigned in by federal law and legal Unions. Nevertheless, more credence must be given to the nascent networks of overseas Chinese communities and families - "a secretive, sophisticated network" which is "pan-Asian, increasingly global, and family and education oriented."³⁵ According to Naisbitt, there are 57 million overseas Chinese - 53 million in Asia alone. Moreover, overseas Chinese communities and families now control 70% of the Indonesian economy, 60% of Thailand's, and 70% of the Philippines.³⁶ Overseas Chinese are also the largest cross-border investors in Thailand, Malaysia, Indonesia, and the Philippines, while accounting for some 80% of all investment in China.³⁷

Due to the neo-liberal obsession with quantitative trade figures and a legalistic conception of political economy there has been a profound inability to conceptualise the qualitative aspects of spatial reconfigurations within the region and the *de facto* creation of an ethnic Chinese commercial space which differs markedly from neo-liberalism. Due to China's vast size and historical aversion to Western-style legal frameworks (though this is in the process of

³⁴ N Ling-Sum, "Rethinking Globalisation: Re-Articulating the Spatial Scale and Temporal Horizons of Trans-Border Spaces", in K Olds, P Dicken, PF Kelly, L Kong and H Wai-chung Yeung (eds), *Globalisation in the Asia-Pacific: Contested Territories*, London, Routledge, 1999, p.140.

³⁵ Naisbitt, *Megatrends Asia*, pp. 2-3.

³⁶ *Ibid.*, p.4.

³⁷ *Ibid.*

changing), an informal system grew based on *guanxi* - connections which incorporate ancestral and familial ties. It was through this system that overseas Chinese were better able than Westerners to penetrate China's opaque economic system. According to Sterling Seagrave, around 30% of Hong Kong currency circulates on the mainland through *guanxi* while around \$4 billion in Taiwanese investment is located in ancestral districts.³⁸ Indeed, Taiwanese capital is treated as 'special domestic capital' in mainland China and Taiwanese interests have, for many years, been allowed to pursue business interests such as banking, wholesale and retail which, up until China's WTO agreement with the US in 1999, had been closed off to foreign capital. Moreover, around 9,300 Taiwanese firms have moved production facilities to the mainland involving \$8.6 billion in investment as of 1993.³⁹ Many of these connections were founded on little more than trust, or what Tonnies conceptualised as *gemeinschaft* - informal bonds of trust, kinship, and affection as opposed to contractual relations. The "borderless" overseas Chinese economy now represents the third largest economy in the world and is likely to exert a great deal of structural power within the financial sector of the global economy in the years ahead. Moreover, because of the diffuse nature of this new supra-national capitalist class and its opaque sources of power leverage traditional modes of social scientific analysis are unlikely to capture their impact.

More attention must also be paid to the cultural implications of Greater China and here we need to get beyond the rather narrow geographical connotations which many analysts have applied to the concept. A transnational Chinese economy naturally feeds into the revolution in communications which has accompanied the end of the Cold War. As Harding notes, direct satellite broadcasting is creating a "Chinese television global village" and a pan-Chinese

³⁸ S Seagrave, *Lords of the Rim: The Invisible Empire of the Overseas Chinese*, London, Bantam Press, 1995 p.274.

³⁹ Ling-Sum, "Rethinking Globalisation", p.137.

culture" or "civilisational community." For Ling-Sum, Greater China is partly a response to enhanced trading relations with the US as well as the broader issue of restructuring the Chinese economy in the light of globalisation. Globalisation requires an added emphasis on capital investment and the Greater China concept links Taiwan and Hong Kong to "Chinese strategies for growth and reunification." As Ling-Sum further notes, this is evidence of China's pragmatic interim strategy of encouraging 'patriotic' Chinese elements to 'invest in the motherland' without confronting the long-term problems associated with questions of democracy and nationalism.⁴⁰ As stressed in chapter 4 Chinese nationalism is transnational in scope and has been successful in uniting communists and capitalists alike into a state strategy of 'national salvation.'⁴¹ The historical-sociological turn in international relations theory, outlined in chapter 1, is instrumental in demonstrating how states are capable of mobilising resources based on dominant narratives and culturally selective projections of national purpose. In short, Greater China becomes a euphemism for business networks keen to share in China's growth but often ignoring long-term political issues. Thus, it is perhaps not surprising that neo-liberals have also been keen to utilise a term which really denotes private business activity rather than a deeper institutional or political process involving all of the peoples of the 'Greater China' territories.

There are two fundamental caveats to consider when evaluating the concept of Greater China. The first is that this unregulated economic phenomenon often exists in symbiosis with an informal sector of the Chinese economy characterised by corruption, exploitation, drug trafficking, prostitution, and organised crime syndicates. The regional growth of networks often feeds off extant inequalities within Chinese society and a *de facto* caste system which

⁴⁰ *Ibid.*, p.136.

⁴¹ See C Hughes, "China and Liberalism Globalised", *Millennium: Journal of International Studies*, Vol.24, No.3, 1995, pp.103-125.

the CCP has striven to deny due its incompatibility with an ostensibly Marxist government.⁴² In this sense, the goals of the CCP and those of the Guomindang on Taiwan are increasingly compatible in that they both champion entrenched traditions, elite interests and a capitalist elite which is global in outlook.⁴³ In short, the Greater China concept, in many respects, constitutes a capitalist narrative as to who is considered Great in China. The concept does not include the poor, the unemployed, migrant workers, and the marginalised rural peasantry who make up the vast bulk of Greater China's population and who are far from intimately connected with their financier comrades in Hong Kong. Thus, though the term is empirically useful in studying capitalist development in these economies and explaining the mobile nature of the social fractions driving the process forward, it is also innately exclusionary and fails to account for the consequences of highly uneven capitalist development. The second caveat is that we should not play down the Chinese state too much or we risk throwing out the baby with the bathwater. As Castells argues, such networks rely on highly authoritarian and centralised hierarchical structures concerned with long-term planning strategies while, paradoxically, these hierarchical structures buttress the short-term, and often irresponsible quest, for profit.⁴⁴ Harding has noted that it was the role of the Chinese government in creating Special Economic Zones (SEZs) in the Chinese coastal provinces and the political conversion to the doctrine of "one country, two systems" which actually facilitated the increased interdependence of the Greater China economies.⁴⁵ The state is still imperative in adapting Chinese society to regional and global trends, such as coordinating research and development, accruing knowledge of global markets, and sponsoring large-scale technological

⁴² The Confucian tradition views certain sectors of society as being naturally poor and subservient. Indeed, the inland poor are often derogatorily referred to as "muddy legs". See Seagrave, *The Invisible Empire*, p.285.

⁴³ See J Henderson, "Danger and Opportunity in the Asia-Pacific", in Thomson (ed), *Economic Dynamism in the Asia-Pacific*, p. 380.

⁴⁴ Castells, *Rise of the Network Society*, p.178.

innovations.⁴⁶ Moreover, the job of holding in place China's social fabric is still very much the responsibility of the state and its symbolic hold on power, ideas, and ideology. Having discussed Greater China as a potential challenge to neo-liberal hegemony and of APEC regionalism let us now turn to the nascent, and infinitely complex, relationship emerging between China and Japan as a counterweight to US power in the region.

Japan-China Relations in the Asia- Pacific: Implications for US Regional Power

The Japanese model of regional production and Japan's high levels of foreign direct investment (FDI) in the Asia-Pacific region have, at the functional level at least, brought China and Japan closer together. Despite historic enmities rooted in Japan's activities in China before and during World War Two, compounded by Japan's inability to apologise for atrocities, Japan's regional developmental model has had profound implications for China, as elsewhere in the region. China's leaders followed the four Tiger economies in pursuing a strategy of export-led growth coupled with state interventionism and the protection of infant or core industries (see chapter 4). Nevertheless, Japanese FDI in China rose to \$500 million by 1992⁴⁷, while Japan-China trade levels stood at \$39 billion in 1993.⁴⁸ Japanese investment and aid are extremely important in the ongoing modernisation and development of China's infrastructure, though there are clearly questions which arise from China's subordinate role in the regional network of production or what many analysts have called the "flying geese" model.⁴⁹ For example, one Japanese retail outlet, Yaohan, has boasted that it can employ twenty eight Chinese workers

⁴⁶ Harding, *The Concept of Greater China*, p.668.

⁴⁶ *Ibid.*, p.178.

⁴⁷ P Gangopadhyay, "Patterns of Trade and Investment in the Asia-Pacific Region", in Thomson (ed) *Economic Dynamism in the Asia-Pacific*, p.33.

⁴⁸ W Hu, "China and Asian Regionalism: Challenge and Policy Choice", *The Journal of Contemporary China*, 5, 11, 1996, p.54.

⁴⁹ See G Hook, "Japan and the Construction of the Asia-Pacific", in A Gamble and A Payne (eds), *Regionalism and World Order*, London, Macmillan, 1996.

for every one Japanese worker.⁵⁰ This elucidates the fact that highly exploitative capitalism is not the preserve of US-style neo-liberalism. Indeed, certain members of the CCP in China have clearly been worried that China was becoming subsumed into a vertical division of labour in Asia whereby China enjoys short-term prosperity at the expense of technological innovations further up the production scale. Thus, China's position in the regional production structure, engendered by Japan, may well impede overall development and structurally subjugate China to the whims of Japanese capital.⁵¹ Any source of perceived structural largesse wielded by Japan via China is regarded by political forces in Beijing as dangerous. We must also consider the fact that China's sheer size and economic importance preclude its being absorbed into the flying geese model of regional production. The reason for this is that within China itself there exist several co-existing economic models, regions and sub-regions, each fulfilling widely different roles in the current economic process - indeed some are entirely marginalised from the process. The development of a Greater China sphere, discussed above, infuses the political economy of the region with yet more complex dynamics which cannot be captured by analysing the orbit of Japan's economic influence alone. These processes are at once distinctive and interactive with Japan's macro-economic strategies (export-led growth, flexible specialisation, just-in-time supply) filtered through local Chinese practices such as *guanxi*.

Moreover, continued tensions between Japan and China were underscored during a historic summit meeting in November 1998 when Jiang Zemin travelled to Tokyo. China is perturbed by the fact that Japan refuses to acknowledge the word "invasion" in its apology for war-time atrocities and the fact that Japan will not make further moves to derecognise the independence of Taiwan. On Japan's part, there is a resentment of the fact that China has been widely

⁵⁰ J Faust and J Kornberg, *China in World Politics*, Boulder, Lynne Rienner, p.191.

⁵¹ Hu, "China and Asian Regionalism", p.50.

praised by the US for resisting any devaluation of the *Yuan*, while Japan continues to feel the wrath of the US Treasury Department for refusing to liberalise its economy speedily enough despite ploughing some \$30 billion into those countries worst hit by the recent financial crisis.⁵²

The broader political implications of the Japan-China relationship in the economic sphere are polarised by the fact that both countries have incurred the wrath of US trade policy in the form of sanctions - a constant reminder of US hegemonic power no matter how ephemeral it appears in the 1990s. It was against a backdrop of US sanctions that Japan's leaders and Japanese corporations made significant inroads into winning confidence among China's elites. In 1993 Japan became the first industrialised nation fully to resume relations with China following the Tiananmen Square massacre, restoring a \$5.9billion loan package which had been suspended in 1989.⁵³ The Japan-China relationship has been further consolidated by the networks of overseas Chinese (discussed earlier) with loyalties to both Japanese capital and the Chinese state. The informal structural power of an overseas Chinese business class which traverses the region has been invaluable in allowing Japanese TNCs to permeate markets and in opening them up to Japanese investment and trade generally.⁵⁴ It is an interesting irony that the US State Department, throughout the 1980s, encouraged Japan's burgeoning official development assistance (ODA) to China in the belief that it would help open China's markets in the long term - a development conducive to US interests.⁵⁵ By the mid 1990s, however, the spectre of inter-capitalist rivalry and divergent capitalist models had introduced the possibility that China and Japan will, over time, supersede US regional dominance should they forge

⁵² J Watts, "Beijing Waits for Japan's Apology", *The Guardian*, 25 November, 1998.

⁵³ Hsiung, "China's Omnidirectional Diplomacy", p.577.

⁵⁴ Faust and Kornberg, *China in World Politics*, p.191.

⁵⁵ Q Zhao, *Interpreting Chinese Foreign Policy*, Oxford, Oxford University Press, 1996, p.151.

satisfactory grounds for cooperation. Indeed, by December 1994 Japan and China had agreed an ODA package worth \$5.8 billion over the period 1996-1998, thereby strengthening economic ties between the two nations.⁵⁶ The key factor here, moreover, is that Japan is not asking China to relinquish state controls nor to comply with Western cultural norms as a precondition of economic interaction. Moreover, as Richard Cronin has observed, "Japan's capital flows to China are dominated by government lending, not private direct investment" and are, thus, somewhat immunised from short-term fluctuations in global markets.⁵⁷ This ties in with our argument in chapter 3 that US market share in China over the long term may be disadvantaged by over-reliance on investments tied to the coastal provinces and less motivated by China's growth as a whole. Finally, Sino-Japanese relations were given something of a filip by the Asian financial crisis which, in some senses, has served to harmonise the interests of Asian nations, even though the political will to directly challenge US regional supremacy remains largely absent.

The Political Consequences of the Asian Financial Crisis

The Asian financial crisis raised important questions about the trajectory of the Asian region and feeds into debates about the emergence of a Japanese-Chinese accommodation as a counter to US hegemony and the orthodoxy of the IMF and the US Treasury. It also sheds light on China's professed aim of securing a multipolar region secure against the hegemony of any one power. In relation to the financial crisis China's fairly rapid move to supply financial aid packages to the afflicted countries, amounting to \$1 billion overall⁵⁸, stood in stark contrast to the US where President Clinton was initially referring to the hardship of millions as "a few

⁵⁶ *Ibid.*, p.153.

⁵⁷ RP Cronin, *Japan, the United States, and Prospects for the Asia-Pacific Century*, New York, St Martin's Press, 1992, p.35.

⁵⁸ Higgott, "The Pacific and Beyond", p. 340.

little glitches on the road" to trade liberalisation.⁵⁹ Thus, China seemed to be developing an awareness that its relationship with other Asian states represents a possible counterweight to US dominance.⁶⁰ Without downplaying the historic tensions between China and Japan, both countries feel aggrieved by US aggression in the trade sphere and, according to one Chinese academic, there is considerable sympathy and even support for Japan's position *vis a vis* the US.⁶¹ Both nations now have significant structural power in the financial sphere of the global political economy which could, quite conceivably, thwart US-sponsored policies in key areas. As we noted in chapter 3, this was vividly demonstrated in June 1998 when President Clinton travelled to the PRC in a visit where he was largely preoccupied with trying to persuade China's economic reform chief, Zhu Rongji, to rule out any devaluation of the Chinese *Yuan* likely to precipitate region-wide competitive devaluations with catastrophic implications for the global economy.⁶² The realisation that the US was, in fact, unable to prevent such action represents a new era of power relations in the region and the global economy generally, compounded by the resentment engendered by the US Treasury-IMF handling of the Asian financial crisis.

The Asian financial crisis, then, precipitated a two-pronged movement by both China and Japan to find an Asian solution to Asian problems which, though perhaps insufficiently attuned to the global nature of the crisis, must be given political credence because it illuminated dissatisfaction with the US-IMF programme and that of global neo-liberalism generally. We have already mentioned China's appropriation of significant funds for afflicted nations. Japan's proposal for an Asian Monetary Fund (AMF) and promise of vast funds to reflate the afflicted

⁵⁹ Cited in "President Upbeat about Asian Economic Woes", *The Washington Post*, 25 November, 1997.

⁶⁰ *The Economist*, "Why China Wants to Cuddle", November 15, 1997.

⁶¹ Jisi, "The Role of the United States as a Global and Pacific Power", p.8.

economies was effectively vetoed by the US Treasury which saw the crisis instead as an opportunity to enforce neo-liberal restructuring policies on Asian nations by tying them to IMF loan conditions.⁶³ Such a strategy subjected Asian people to market forces through wage freezes, high interest rates, and curbed public spending, while exempting the domestic elites and the transnational speculators responsible for siphoning funds into ill-advised property development and chasing quick-fix profits without regard for the human consequences.⁶⁴

The US decision to block the AMF must be understood in broad structural terms, with associated implications for the distribution of global political power. Any institution likely to give China and Japan more autonomy, even in the regional sphere, directly challenges US power and was indeed viewed as a step towards Japanese regional hegemony by the US Treasury.⁶⁵ The political momentum behind the Japanese proposal was that of controlling the activities of foreign investors and legitimising stronger modes of government intervention. Put simply, the US was unwilling to cede or delegate power prerogatives which might have undermined the free flow of capital. The crisis not only encouraged China's leaders to retain currency controls and, if temporarily, put the brakes on trade liberalisation (see chapter 3); it also elucidated key areas where Japanese and Chinese interests are shared. Realists have conspicuously played down this congruence of interests due to an obsession with geo-political power alone. That is not to imply, however, that geo-political matters have simply evaporated. Bilateral disputes over territory and weapons proliferation continue to temper US-China

⁶² J Gray, "Bill in a China Shop", *The Guardian*, 26 June 1998.

⁶³ For a good discussion, see R Higgott, "The Asian Economic Crisis: A Study in the Politics of Resentment", *New Political Economy*, Vol.3, No. 3, 1998, p p.333-357.

⁶⁴ W Greider, "Saving the Global Economy", *The Nation*, December 15, 1997.

⁶⁵ See R Bevacqua, "Whither the Japanese Model? The Asian Economic Crisis and the Continuation of Cold War Politics in the Pacific Rim", *Review of International Political Economy*, Vol.5, No.3, 1998, pp.410-424.

relations, while the ambiguous nature of China's regional ambitions are a very real source of regional instability throughout South East Asia.

Sino-US Disputes as a Source of Regional Insecurity

The question of regional security in the Asia-Pacific region and geo-political power struggles in the region have been inadequately accounted for within critical IPE partly because they are viewed as reifying a realist discourse which has, for too long, dominated discussion of the region. Yet arch realists such as Buzan and Segal have a point when they attack neo-liberal approaches to the region as "an attempt to avoid confronting the consequences of the end of the Cold War." In short, the question of power reconfigurations in the region has still to be addressed and, though we avoid the 'balance of power' discourse of the realists, a 'real' debate must take place on the possible emergence of a realignment of power relations within the region which could gradually supersede the era of unrestrained US hegemony.⁶⁶ This is likely to occur first at the state level with Asian elites challenging the US on issues from human rights to trade (see chapters 3 and 4) to its continued military presence in the region. Let us now analyse the situation at the current juncture, focusing on US-China relations but feeding them in to the wider debate on the region itself.

The US, China and the Intractable Taiwan Question

The highly volatile question of Taiwan and its pivotal role in the US-China relationship has, if anything, been exacerbated by events during the Clinton years. This issue challenges the liberal internationalist assumptions of Washington policy elites and opens up the debate on the irredentist tendencies of China's leadership and the wider role of nationalism as an alternative strategy of regime legitimation for the CCP. As Hughes puts it, such a "nationalism translates

⁶⁶ B Buzan and G Segal, "Rethinking East Asian Security", *Survival*, Vol.36, No.2, 1994, p.15.

into a very particular type of "security for individuals" and "while it may offer security from the US navy, it does not offer security from agents of the Chinese state."⁶⁷ The ability to shift focus on to some external threat from the US, then, deflects from the coercive authoritarianism of the Chinese state. Nevertheless, nationalism is a key resource for China's leaders in the post-Cold-War world and wariness against what Jiang has termed "colonial culture" continues to find resonance among the educated and elites. The intractability of the Taiwan question, then, must be understood within both an historical context and the decline of Marxist-Leninist ideology which means that China, rather interestingly, is shedding its recent ideological identity only to reach further back in history and reassert itself as a great civilisation.

Two specific events have brought tensions between the US and Taiwan into polarisation during the Clinton years and point to underlying ambiguities as to how, or whether, China will conform to a world order defined under conditions of US hegemony. The first flashpoint took place in July 1995 when US Secretary of State, Warren Christopher, reversed a decision, supported by President Clinton, to prevent Taiwan's president, Lee-Teng-Hui, from entering the United States and gave him permission to speak at Cornell University where he had studied. The Chinese leadership saw the issue in stark nationalistic terms, viewing Teng-hui's accreditation for a US visa as usurping America's 'One China Policy' - certainly the views of Congress and the views of the Clinton Administration seemed to have bifurcated when a resolution was passed in Congress (97-1 in the Senate and 360-0 in the House) urging that Ten-hui be granted entry to the US and forcing the Clinton Administration's reversal of policy noted above.⁶⁸ The domestic dimension of the Taiwan issue (touched upon in Chapter 5) is

⁶⁷ C Hughes. "Globalisation and Nationalism: Squaring the Circle in Chinese IR Theory", *Millennium: Journal of International Studies*, Vol.26, No.1, 1997, p.123.

⁶⁸ N Holloway, J Baum, L Kaye, "Shanghaied by Taiwan", *Far Eastern Economic Review*, June 1, 1995, p.15.

of great import here. Significant lobbies on Capitol Hill (particularly on the Republican right) have been keen to support wealthy clients in the Guomindang (KMT) government of Taiwan. Moreover, Teng-hui's avowed Christian faith has won him friends among the Christian Coalition.

A second dimension to the problem exists within Taiwan and its more assertive push for international recognition and UN membership despite the protestations of the Beijing government. When Teng-hui became president in 1988 he was the first Taiwanese native to hold the post. Under Teng-hui the KMT embarked upon a policy of "indigenisation" or "Taiwanisation" which entailed promoting more members of the native Taiwanese political class into government positions. We should note that this strategy was largely co-optive on the part of the KMT and designed to legitimate and safeguard entrenched interests. As Martin Jones alludes, "Lee Teng-hui reflected the incoherence of this confused Confucian-democratic experiment when he characterised any opposition attempt to change the mandate of heaven as a threat to 'violate the constitution' and destroy the country."⁶⁹ Thus, the Congressional supporters of Taiwan were hardly aligning themselves with democratic forces. Though we should not dismiss Teng-hui's reforms, it is also the case that US Republicans have long courted Taiwan's democratically unaccountable oligarchs despite their former suppression of democracy.

It was China's response to these events which merits special attention as regards China's challenge to US hegemony and, indeed, to its regional neighbours. China's leaders described Lee's admission as "naive towards history" and reaffirmed the fact that "nothing is more important than China's national unification and sovereignty." The Clinton Administration was accused of viewing Taiwan as "an American aircraft carrier" and "part of their own

territory."⁷⁰ Significantly, China's leaders were not averse to taking provocative measures to register their disquiet, including cancelling all bilateral meetings, recalling their Washington Ambassador for consultation, and announcing missile and military tests in the Taiwan Strait.⁷¹

The broader significance of the Taiwan question surely lies in its undermining of neo-liberal assumptions embedded in APEC and the concomitant illusion that free trade and unrestricted capital flows entail the vaporisation of geopolitical matters with historic and political roots. How serious China's leaders are about such matters was demonstrated vividly in February 1996 when the People's Liberation Army (PLA) conducted missile tests close to Taiwan's shore in a pugnacious attempt to influence the Taiwanese elections. China warned Lee against any dilution of links to the mainland in the most tense stand-off between the PRC and Taiwan since the Chinese bombardment of Quemoy and Matsu in 1957. The crisis elicited a rapid US response with the dispatch of the 7th Fleet to the Taiwan Straits and underscored the uneasy territorial fault lines which demarcate the region - however anachronistic this may seem to Western globalists in an era of globalisation. China's foreign minister, Qian Qichen, stressed that the entire exercise was warranted if "people have forgotten that Taiwan is a part of China and not a protectorate of the United States."⁷² It should also be noted that China does possess detailed plans for the invasion of Taiwan should this conflict prove unamenable to peaceful evolution.⁷³ This serves as a reminder that, for the *realpolitik* nationalists of the CCP, the rebuilding of China as a global power can, and often does, take priority over capitalist development in the short-term precisely because, unlike the socially atomising side-effects of

⁷⁰ D Martin Jones, *Political Development in Pacific Asia*, Cambridge, Polity Press, 1997, p.48.

⁷¹ Holloway, Baum, and Kaye, *Shanghaied by Taiwan*, p.15.

⁷² K Lieberthal, "A New China Strategy", *Foreign Affairs*, Vol. 74, No. 6, Nov/Dec, 1995, pp. 39-40.

⁷³ Cited in M Walker and A Higgins, "Clinton Pressured into Bolstering Taiwan Fleet", *The Guardian*, March 12, 1996.

capitalism, it provides a *raison d'être* for national unity and a focal point for a leadership quite aware that economic developments are outstripping the reach of state power. It is for this reason that the leadership has promulgated a fairly odious machismo on security matters which is dangerous in that it may engender unnecessary tensions in a region which, in other respects, is moving towards a mature cosmopolitanism.

Arms Proliferation and Security Cooperation

It would be historically foolish to stop talking about issues related to arms altogether, especially in the Asia-Pacific region where territorial and nationalist questions which now appear anachronistic to many Western observers have, if anything, been brought to the fore by the end of the Cold War. Let us first look at such issues within a US-China context (with obvious regional repercussions) and then focus on China's regional relations and how they may impede or promote US interests.

A major issue influencing the policy debate in the US, and fuelled by the right-wing media, is the issue of China's role in the proliferation of nuclear weapons and alleged sale of materials to Pakistan and Iran. China signed the Military Technology Control Regime (MTCR) and the Nuclear Proliferation Treaty in 1992; the Nuclear Proliferation Treaty (NPT) in 1993; and the Chemical Weapons Convention (CWA) in July 1996, along with the Comprehensive Test Ban Treaty (CTBT) and the announcement of a moratorium on all nuclear tests. As such, China has largely complied with US requirements and international law. However, China's alleged transgression of such agreements has become a focal point for the right-wing anti-China lobby within the US Congress which views China as an endemic threat to US regional interests. This nascent unilateralism challenges the neo-liberal consensus and resulted in the China Policy Act

³ This fact was conveyed to me at an interview at the Bureau of Intelligence and Security, US Department of State, December 1997, Washington D.C.

of September 1997 which committed the US to the imposition of sanctions on Chinese military companies engaged in proliferation.⁷⁴ Specific issues leading to the act included the sale of ring magnets, reported in early 1996, to Pakistan which could be used to enrich uranium involving the China Nuclear Energy Industry Corporation. Strong protests from Westinghouse Electric and Boeing Aircraft mitigated the extent to which sanctions were applied and only briefly did the US Secretary of State, Warren Christopher, suspend EXIM Bank financing for commercial deals with the Chinese nuclear sector.⁷⁵ Thus, these issues directly impact upon the political economy of the relationship, particularly the US imposition of sanctions on China, discussed in chapter 3, which hurt US trade.

A second key issue to arise involved the alleged Chinese sales of nuclear technology to Iran in supposed breach of the NPT. CIA Director, John Deutch, named China as a "key supplier" of Iranian nuclear material in June 1997. Though such matters are clearly of some concern we should note the extra-territorial mandate the US Congress is claiming in relation to such sales despite the fact that it is unwilling to subject US companies to the same scrutiny under international law. Under the NPT peaceful nuclear cooperation is permitted and the US Congress has actually invoked US laws, such as the Iran-Iraq Non-proliferation Act, the Arms Export Control Act and the Export-Import Act, to justify its stance. Indeed, during the 1990-94 period the US built up global weapons sales ten times as large as China's, making it the world's number one exporter. Moreover, the Pentagon predicts that the US share of global weapons sales is likely to rise from 50% in 1993 to 63 % in the year 2000.⁷⁶

⁷⁴ S A Kan, "Chinese Proliferation of Weapons of Mass Destruction", *CRS Issue Brief IB92056*, Congressional Research Service, Library of Congress, Washington D.C., September, 1997, p.15.

⁷⁵ *Ibid.*, p.2.

⁷⁶ D Lampton, "A Growing China in a Shrinking World: Beijing and the Global Order", in E Vogel (ed), *Living With China: US-China Relations in the Twenty-First Century*, New York, WW Norton, p.133.

The Clinton Administration has also attempted to harness China's burgeoning global power to the resolution of two regional disputes whose origins are embedded in the Cold War. The first of those disputes was in Cambodia where the Maoist Khmer Rouge and other factions continued to wage war upon one another. In 1991 the Bush Administration managed to elicit Chinese cooperation in passing the UN Comprehensive Political Settlement of the Cambodian Conflict. The Security Council resolution involved the deployment of 22,000 UN peacekeepers and the demobilisation of all warring factions. China's links to the Khmer Rouge were viewed as instrumental in brokering an agreement and, in 1993, the Beijing government announced an end to military support for Pol Pot's Khmer Rouge rump whilst committing an engineering battalion to the UN effort.⁷⁷ A key by-product of this agreement was a rapprochement between China and Vietnam - another enmity rooted in Cold-War geo-political conflict.⁷⁸ In 1993 the Vietnamese leader, Le Duc Anh, and Jiang Zemin went so far as to suspend opposing sovereignty claims on the Spratly Islands.⁷⁹ All of these proceedings must be viewed as congruous with broad US interests in the region.

The US has also encouraged China to defuse tensions on the Korean peninsula where nuclear tensions have been exacerbated in the 1990s following the death of Kim Il Sung and the political instability of the world's last Stalinist state. The US has managed to persuade China into participating in Four Party talks to secure a "durable" peace - a commitment reaffirmed by both sides during the 1997 US-China Summit in Washington.⁸⁰ However, Chinese acquiescence in this dispute has often been far more reluctant than US sources would lead us

⁷⁷ R Foot, *The Practice of Power: US-China Relations 1949-1995*, Oxford, Oxford University Press, 1995, p.253.

⁷⁸ Martin-Jones, *Political Development in Pacific Asia*, p.185.

⁷⁹ Hsiung, "China's Omnidirectional Diplomacy", p.578.

⁸⁰ White House Press Release, *US-China Joint Statement*, October 29, 1997.

to believe. China strongly objected to US plans to impose UN sanctions on the Pyongyang regime despite pressuring North Korea's leaders to comply with and to accept the inspection of its nuclear facilities by the UN. China continually emphasised its limited influence (perhaps reflecting China's championing of developing world sovereignty which has largely continued beyond the Cold War) and the desirability of regional solutions to the problems in North Korea.⁸¹ Hints that the US is willing to take military action against North Korea in order to topple the regime of Kim Jong-il may stretch Chinese co-operation to the limit, if not induce a backlash against the US.⁸²

China's Regional Agenda

In many respects China's long-term goals towards the region are almost impossible to decipher at the current historical juncture. What does seem clear, however, is that any significant conflict would appear inimical to the leadership's long-term development goals, though it may nevertheless be said that China's regional conduct to date has been both benevolent and bellicose. China, along with several Asian states, is suspicious of US intentions for APEC and has sought to align itself with the authoritarian capitalist politics of Singapore and Malaysia. Thus, China broadly supports the Asian elite discourse of 'Asian Values' which are, of course, equated with the values of dominant groups within Asian societies (see chapter 4). Thus, building bridges in its bilateral and multilateral relations in the region has taken high priority and has manifested itself in what has been termed *zhoubian* (circumference) diplomacy. This strategy is much ignored by realists and neo-liberals keen to stress either China's recalcitrance in complying with America's regional agenda or to play down China's pursuit of its own regional agenda.

⁸¹ Foot, *The Practice of Power*, pp.258-9.

⁸² J Gittings. "US Threat to Invade North Korea", *The Guardian*, November 26, 1998.

While it is true that China's leaders have displayed pernicious irredentist tendencies and a desire to claw back territory surrendered to the imperial powers in the nineteenth century, this sits alongside a broader resentment of hegemony in general. For all the faults of the Chinese government it does not appear, at this stage, willing to embark upon such a path. The end of the Cold War left China feeling somewhat isolated from its Asian neighbours and ended the *raison d'être* for US support of China's geo-political challenge to Soviet influence in the region. Thus the process of refashioning a regional role has been imperative for the CCP leadership. An important area of *rapprochement* has been with the ASEAN countries (often referred to as middle powers in the realist jargon) who share important political and cultural similarities with China papered over by the Cold War.

The ASEAN countries elites share with China's a resentment of US hegemony, a commitment to Asian values and a penchant for political authoritarianism often articulated through the neo-Confucian discourse of the "Asian Way".⁸³ ASEAN's shift from US satellite status during the Cold War to a grouping with pan-Asian tendencies has not gone unnoticed by China and, in July 1992, the PRC and the ASEAN leaders signed a treaty at the Post Ministerial Conference (PMT) of ASEAN in Manila pledging a new commitment to trade and cooperation.⁸⁴ Since that time there has been a notable confluence of cultural attitudes between nations such as Malaysia and Singapore (with large ethnic Chinese populations) and China pertinent to questions of human rights and development. Malaysia's Dr. Mahathir has been particularly vocal in championing 'Asian Values', cultural relativism, and a pugnacious defence of

⁸³ The "Way", or *dao*, has its origins in Chinese Confucianism and the belief in the divine wisdom of rulers who embody, rather conveniently, a harmonisation of the best interests of the ruled.

⁸⁴ Hsiung, "China's Omni-Directional Diplomacy", p.577.

sovereignty very much in line with the views of Jiang Zemin and the Chinese leadership.⁸⁵ China supported Mahathir's proposal for an East Asian Economic Caucus (EAEC) excluding the US and even welcomed Japan's participation in such a grouping - though Japan was reluctant to join and risk offending the US.⁸⁶ However, China's support for such initiatives should not deflect from a deeper scepticism among China's leaders regarding the efficacy of greater regional multilateralism.

China's seeming willingness to encourage the fashioning of a common Asian heritage and set of values sits, rather uneasily, alongside fierce expositions on the inviolable sovereignty of China's territorial borders and on reclaiming those territories relinquished in the 19th century to colonial forces. This has, understandably, perturbed smaller states in the region unsure of the exact nature of China's regional designs. It is notable that China's leaders have taken little interest in such initiatives as the ASEAN Regional Forum (ARF) and the Council for Security and Cooperation in the Asia-Pacific.⁸⁷ As Hu points out, "on one hand, it [China] does not want to engage in a multilateral dialogue with Southeast Asian countries over territorial issues; but, on the other, if it does not, the spread of the 'Chinese Threat' would mobilise other Asian countries into an anti-Beijing alliance."⁸⁸ The full ramifications of China's actions are extremely far-reaching in the way they intersect with the diminution of America's global and regional power in the post-Cold-War period. The course of action China ultimately pursues regarding such territorial issues may well be a key variable in determining the future of the region and whether an "Asian Way" can, in fact, replace the security umbrella of the United States. The Clinton Administration has declared that it is determined to prevent China's pursuit

⁸⁵ D Roy, "Restructuring Foreign and Defence Policy: the People's Republic of China" in A McGrew and C Brook (eds), *Asia-Pacific in the New World Order*, p.138.

⁸⁶ Jisi, *The US as a Global and Pacific Power*, p.8.

⁸⁷ Roy, *Restructuring Foreign and Defence policy: the People's Republic of China*, p.148.

of a "19th century Agenda"⁸⁹ stemming from the "Century of Shame" and China's determination to reassert its grandiose territorial outreach. What is fascinating is that analysts of all political hues have written off territorial disputes at a time when a formerly colonised civilisation is challenging Western power. Despite many flaws, realists are correct in underscoring the pivotal importance of territorial and nationalist issues in the political strategy of the CCP and in offering a counterweight to the economic fixations of neo-liberals and many radicals. Though China is undoubtedly constrained by the forces of globalisation and nationalism, state-building remains a pivotal source of power for the CCP and a pernicious brand of state-sponsored nationalism may be unleashed in the future should Beijing's leaders begin to feel insecure domestically.

It would not be an exaggeration to assert that Jiang Zemin's regime has come to regard the entire South China sea as part of the Middle Kingdom's historic geo-political domain.⁹⁰ Following the Cold War, the dispute in the Spratly Islands Archipelago (involving China, the Philippines, Brunei, Malaysia, Vietnam, and Taiwan) has been increasingly polarised despite attempts to reach an amicable agreement. China has already used force in the area against Vietnam (in 1988), taking control of several islands. However, it was the building of installations on islands belonging to the Philippines, and the arrest of Filipino sailors, in 1995 which raised tensions in the region to their current levels. China's conduct breached the agreement reach on Chinese-ASEAN cooperation in 1992 and went a long way in eroding confidence among other claimants.

⁸⁸ Hu, "China and Asian Regionalism", p.54.

⁸⁹ Remarks by S Roth, *America's Asia Strategy in the Second Clinton Administration*, US Department of State, 12 December, 1997.

⁹⁰ R Ross, "China and Southeast Asia: The Challenge of Economic Competition", in D Wurfel and B Burton (eds). *Southeast Asia in the New World Order: The Political Economy of a Dynamic Region*, St Martin's Press, New York, 1996, p.159.

The dispute takes on added significance because of the seemingly intractable dispute between Japan and China over the Diaoyu (China's name) or Senkaku (Japan's name) Islands and the much greater tensions which exist between China and Japan generally. Irredentism in China and right wing nationalism in Japan were exacerbated when Japanese nationalists erected a lighthouse on the islands in 1996. Both governments refused to rescind their claims of sovereignty and, though temporary accommodation was reached towards the end of 1996, little has been done to remove the underlying source of these tensions.⁹¹ Though we discussed the potential confluence of Sino-Japanese interests above within an international political economy context, there are, as mentioned above, still areas of great distrust especially in security matters. A key source of tension has been the renewal, in 1996, of the US-Japan Mutual Alliance Treaty. Under the Treaty's auspices Japan has been asked to play a more proactive role in Asian and, indeed, global security.⁹² China's leaders object to any enhanced role for Japan's military and view the alliance as a ruse by which the US can artificially elongate its dominance in the region. Japanese complicity is viewed, in classic realist terms, as a way of thwarting Chinese ascendancy.⁹³ For realists, a post-Cold-War strategic triangle is being fashioned, but this time China is on the receiving end and is subject to a containment policy. This view fails, however, to entertain the very real efforts made by the Clinton Administration to delegate military security, partially through necessity, to Asians themselves in order to maintain competitiveness in the geo-economic sphere. It also plays down the fact that, despite complaints about US arrogance, ASEAN, Japan, and China have all stated their desire for some form of US presence in order to assuage their anxieties concerning each other. In short, though US dominance is not popular among the elites of the region there is an acute

⁹¹ A Goldstein, "China in 1996: Achievement, Assertiveness, Anxiety", *Asian Survey*, Vol.37, No.1, 1997, p.41.

⁹² McGrew, *Restructuring Foreign and Defence Policy: the USA*, p.176.

awareness that the regional hegemony of any one Asian power is even more unacceptable. Moreover, the current lack of any regional institutional infrastructure, saving one which has been foisted upon the region by the US, makes the emergence of regional multilateral structures seem highly improbable.

Conclusion

The US role in the Asia-Pacific region is, at present, fairly clear. APEC represents a reorientation of policy from geo-politics to geo-economics and an attempt to further socialise China into liberal norms and neo-liberal economic rules. It also represents a shift from regional hegemony to regional dominance and the pursuit of multilateral means of achieving US policy goals. In this sense, though US structural power continues to dominate the region *politically*, negotiation and agreement is required to satisfy policy requirements.

That said, the future of APEC is fairly ambiguous given the nationalist aspirations of the Chinese Communist Party, its territorial disputes with Asian neighbours, and historical enmities with Japan. As we have seen, APEC is a largely artificial construction which tends to promote a narrow form of regionalism along neo-liberal lines and which disembeds economic interaction from its underlying social and political context. Geo-political tensions, combined with the aftermath of the Asian financial crisis, raise serious questions for orthodox approaches to the region and may even point to a turning point in US regional dominance as state intervention is reasserted to stem capital outflows and to regulate the activities of footloose global capital. We have argued that Japanese-Chinese cooperation is central to any challenge to US regional power, though it would be wrong to be too sanguine about the political and historical obstacles to such cooperation. Moreover, we have argued that regionalism must be viewed dialectically as a potentially alienating discourse championed by

³ Z Yanling, "Changing Sino-US-Japanese Relations", *The Pacific Review*, Vol.10, No.4, 1997, p.455.

the empowered of the region and backed by a US elite keen to thwart popular movements seeking to assert social and economic justice which may threaten local property and capital as well as the current untrammelled power of global capital more generally. The fact that people's representatives during APEC meetings are usually ringfenced by barbed wire or hemmed in by baton-wielding police officers is evidence enough of this.

Gerald Segal noted that it is becoming increasingly tenuous to include China in the "Flying Geese" model of regional economic development led by Japan, given the fact that certain areas within China, notably Guangdong province, "are already at levels that would qualify them for membership of the first flock of geese." Indeed, as Segal further notes, China has developed its own flying geese pattern on the mainland and represents "not so much a goose as an entire new flock."⁹⁴ Thus, however complex the concept may seem, it is clear that a regionalism within a regionalism is developing as Chinese power begins to rival that of Japan and the US in terms of political and cultural largesse. (China is far closer to other Asian countries on the subjects of authoritarian rule and the discourse of Asian values than either Japan or the US) and as a centre of regional economic gravity). The prosperity of the entire region, even the global economy, is now inextricably bound up with Chinese monetary policy especially the possibility of a competitive devaluation of the *Yuan*.

Walden Bello points out that there is also a growing perception within the region that Japan is unable to break with the "psychology of the Occupation" and risk offending the US - a fact demonstrated during the Asian crisis when Japan backed down fairly rapidly over its AMF proposals and failed to embark on a new reflationary economic trajectory encouraged by

⁹⁴ G Segal, "The Asia-Pacific: What Kind of Challenge?", in McGrew and Brook (eds), *Asia Pacific in the New World Order*, p.321.

several Asian leaders.⁹⁵ While true, it is equally important to note that Japan's historical journey to economic dynamism is, in no small part, due to the openness of US markets and the post-war US security umbrella. It is the US, not China, which has been Japan's long-term partner in the region and in the world economy. In sum, though the US is no longer hegemonic in the region it still exerts sufficient structural power via APEC and a continued political and economic role which make it the most powerful regional actor. Moreover, in Gramscian terms, the diffusion of market ideology in the region and in China, in particular, has been instrumental in advancing US interests without necessarily involving the US state. As noted above, however, this is tempered and complicated by certain nationalist sentiments in China far more pernicious than anything we could associate with US power in the region.

⁹⁵ W Bello, "The Asian Economic Implosion: Causes, Dynamics, Prospects", *Race and Class*, Vol. 40, No. 2/3, 1998/99, p. 137.

Conclusion

Moving Beyond US-China Relations?

Introduction

This thesis has, in essence, attempted to place US-China relations within a historical and structural international political economy context. In a sense, this entails problematising the very notion of US-China relations as a hermetically sealed object of 'specialist' inquiry somehow impervious to the encroachments of global forces whether they be economic or political. Our conclusion, then, seeks to do four fundamental things. Firstly, it asks what the preceding analysis tells us about the changing nature of US structural power in the post-Cold War world and the extent to which the so-called 'Rise of China' alters our perception and understanding of US power and dominance at the level of world order. Secondly, we ask what alternative form of power the rise of China may precipitate with particular reference to the greater degree of multilateralism and delegation already evident in the US's management of the world economy during the 1990s. Thirdly, we discuss the contested nature of US-China policy from within and the extent to which our understanding of what is meant by 'foreign policy' has to be rethought in the light of new actors and agents within civil society with the political capacity to act transnationally, and also with regard to the plurality of actors within the US state often pursuing contradictory policy positions. Fourthly, we place the overall conclusion within the context of globalisation and the extent to which the process is likely to engender

economic, social, and cultural homogenisation or to produce alternative narratives though still *within* a grand narrative of global capitalism.

US-China Relations in the 1990s: Implications for US Structural Power

Conceived in neo-Gramscian terms hegemony is both a coercive and consensual form of power and, within international relations, more often entails a subtle blend of these two elements. Understanding the unfolding of US-China relations at the macro-level of structure, then, involves an appraisal of the way in which US hegemony has transmogrified in the 1990s into a form of dominance which transcends the functions of the US state. Put simply, though the material power of the US state has declined in relative terms, US power over global institutions and the ideology which underpins them has remained fairly intact. Moreover, the appeal of US culture and values continue to grow exponentially even in the historically anomalous 'socialist market economy' of China. As in the case of the Soviet Union towards the end of the Cold War, the mass appeal of higher material standards of living and the move away from the bland conformity of authoritarian rule does pose a threat to the integrity of the Chinese state as presently configured. Yet the arguments made by right-wing nationalists within China about 'bourgeois liberalisation' and a US policy of 'peaceful evolution'¹, which undermines the Chinese state by sponsoring fractious indigenous groups, ignores the fact that Deng Xiaoping *voluntarily* opened the Chinese economy to the West. Viewed historically, moreover, US-China relations have not been characterised by enmity and geo-political rivalry. Indeed, the Cold War was an aberration in this regard. Rather, as we mentioned in chapter 2, the US acted to prevent 'spheres of influence' emerging in China during the period of imperial

¹ *The Economist*, "Now Comes the Hard Part", April 8, 2000.

domination and following the First World War, while also preserving an 'open door' policy on trade. In this sense, there are satisfactory grounds for seeing a great deal of historical continuity in the strategy of the US towards China throughout the twentieth century. None of this is to suggest that the US has not been pursuing its own material interests in China during the Clinton years.

The penetration of the Chinese market has been a key part of foreign economic policy but the nature of US power, conceived in the neo-Gramscian sense, means that there is a large element of satisfaction given to the submissive partner in return for acceptance of global economic rules. In China's case, this has been the provision of a huge export market in the 1980s and 1990s which has helped fuel growth and which has allowed China to maintain significant levels of domestic protectionism along the way. As William Keegan points out, "the United States is borrowing some \$1 billion a day from the rest of the world to finance its insatiable appetite for imports" acting as a "locomotive for the rest of the world economy."² That said, export-led growth does create a type of dependency as evidenced by the Asian financial crisis following which Chinese exports fell by 1.5%.³ As pointed out in chapter 3, failure to develop human capital as an alternative to export-driven growth using unskilled manual labour leads to structural problems in developing technology and the economy overall.

A second point here is the fact that key economic fundamentals associated with neo-liberalism have been accepted by the Chinese leadership. The deregulation of economic activity, the privatisation of the state sector and the gradual creation of a legal framework guaranteeing property rights have all been key features of Chinese economic policy in the

² W Keegan, "When the Magic Starts to Wear Off", *The Observer*, 16 April, 2000.

1990s. The impact of US foreign policy combined with economic globalisation have entailed the restructuring of the Chinese state. Indeed, in the Spring of 1999 guarantees which acknowledge the private sector for the first time were written into the Chinese constitution.⁴ This all points to a fairly successful China strategy on the part of the Clinton Administration despite the many bilateral antagonisms which tend to fuel issue-oriented sections of the US press and certain interest groups.

It is within the structural context above, then, that the Clinton Administrations's policy of 'comprehensive engagement' towards China has to be understood. The linkage of bilateral, regional and global policies have all served the purpose of bringing China within the ambit of the global political economy and tying its government to a set of rules and norms which preclude any serious deviation from market principles. China's move closer to the WTO, in November 1999, is clearly the most crucial development in US-China relations since the reinstatement of relations in 1972. Membership of the WTO will allow US firms to penetrate the China market in new ways and, importantly, creates new markets for service industries, banking, telecommunications and the Internet - all of which are more closely embedded in the activities of financial markets and speculative capital than firms involved in traditional modes of trade involving manufactured goods. Of course, China has been pushing for GATT entry since 1986 and the WTO agreement will also be beneficial to China in allowing Chinese firms to enter the global market on the same terms as competitors. As noted in chapter 3, WTO entry lifts bilateral disputes into a multilateral forum thereby placing US trade policies under scrutiny particularly as regards MFN which must be extended to all WTO members. Moreover, the opacity of

⁴ F Godement, *The Downsizing of Asia*, London, Routledge, 1999, p.179.

China's economy has been a major obstacle in clarifying the extent of trade disputes and in dissuading long-term Western investors (due to lack of legal guarantees) from the type of investment undertaken by the Japanese government. Participation in the WTO will provide greater transparency in this regard and, again, may alleviate much of the misunderstanding which has produced yearly wrangles over MFN.

In the structural context, there remain, of course, matters of real contention between China and the US in the way the global economy unfolds. APEC, for instance, remains a contested form of regionalism and could develop as a counterweight to US regional power given the differing trajectories of Asian economic growth and the impact of Japan upon the regional economy.⁵ With China now inside the WTO and pursuing a largely capitalist economic policy the question, therefore, moves to the type of capitalism which is adopted by the state and whether 'open regionalism' and trade liberalisation of the neo-liberal variety can be sustained in the post-Asian crisis era. In April, 2000, APEC policymakers met in Seoul to discuss the need for improved social safety nets in the wake of the crisis and expressed concerns for the proliferation of regional inequality. In many respects, this takes APEC into the new territory of social and public policy thereby challenging the *homo economicus* view of APEC's development among business elites. Once again, the idea of an Asian Monetary Fund was mooted proving that the political fallout of the Asian crisis will continue to shape thinking about the future of the region.⁶ As mentioned elsewhere in this thesis, cooperation between China and Japan may well be

⁵ *The Economist*, "Now Comes the Hard Part."

⁶ H Dieter, "APEC and the WTO: Collision or Cooperation", *The Pacific Review*, Vol.10, No.1, 1997, p.25.

⁶ At a meeting of APEC governments in March, 2000, a strong commitment to indigenous welfare policies was discussed. See "Asia pays the Social Price of Boom and Bust", *The Guardian*, 4 April, 2000.

crucial in an Asian developmental context if there is to be an alternative to US economic dominance.

Another key structural issue emerging from the thesis revolves around the role of the US in global environmental politics, as discussed in chapter 6. If the most pessimistic sources are to be believed then China may well be entering the endgame with regard to countering rising pollution levels and, like Beckett's Hamm and Clov, China's leadership cannot postpone forever the gravity of what lies before them. It is for these reasons that forging a cooperative basis of understanding on this issue at the *global* level is so important. Currently, the US emphasis on finding market solutions to these problems holds sway as does the emphasis on population levels in the developing world over consumption in the advanced capitalist countries. This ensures disagreement between China and the US over the fundamentals such as greenhouse gas emissions, which China disputes are occurring, and tends to confine cooperation to trade in environmental technologies and scientific knowledge. In turn, US dominance in the world market for green technologies makes China a lucrative prospect for US firms. Our argument here is that the environment is an area where short-term competitive gains may have to be overridden by a long-term perspective which views environmental decay as the transboundary issue it most certainly is. Indeed, this is the radical interpretation of the environmental question which was set out by prospective US President, Al Gore, who has advocated a 'global Marshall plan' on the environment involving a 'strategic environmental initiative' which provides detailed policy targets for pollution outputs in specific regions. Interestingly, this would also involve "massive efforts to design and then transfer to poor nations the new technologies

needed for sustained economic progress.”⁷ While perhaps overly idealistic such a plan dovetails with much of the thinking behind post-Cold-War liberal institutionalism and moves towards global regimes of regulation. The key question in US-China environmental relations will be the extent to which new bilateral and global initiatives are tied to US dominance in the global market or, conversely, whether a genuinely multilateral *modus operandi* can be forged between the two nations in line with other governments and NGOs seeking a sustainable development agenda. This leads us nicely into discussing the ways in which US-China relations intersect with nascent forms of multilateral power.

US-China Relations and the Prospect of a more Multilateral World Order

This thesis is not motivated by hypothesising the denouement of US global power but in asking critical questions as to just what a more cooperative world order would look like. A key element of our theoretical chapter was the idea of counter-hegemony or, at least, alternatives to the status quo. Rather than viewing China’s economic growth in state-centric terms akin to realism, we view China’s emergence as elucidating the need for greater global cooperation which builds upon existing institutions. Throughout the twentieth century it has been taken as almost axiomatic that Western powers should define the nature and scope of global institutions. Arguably, this state of affairs is unlikely to continue indefinitely.

There are a number of arguments being put forward with regard to the development of more multilateral forms of power as an alternative to the existing system. The best argument which has so far emerged is Robert Cox’s conception of ‘Middlepowermanship’ which he has investigated in particular relation to Japan but which

⁷ A Gore, *Earth in the Balance: Towards a New Common Purpose*, London, Earthscan, 1992, pp.295-360.

can be treated, more broadly, as relating to the collegial management of the world-economy congruent with the process of structural change.⁸ Two elements of Cox's schema are particularly relevant to our conclusion. The first is the notion of "world-economy management by the G7 major capitalist powers including Japan but expanded to include some form of participation by a more market-oriented Soviet Union [now Russia] and China." The second is the idea of a "multi-level order with a wide diffusion of power among nations and social groups."⁹ The first element is based on greater mutual responsibility between the major capitalist powers and the closer coordination of macro-economic policy and exchange-rates. Writing in 1989, Cox thought this an unlikely scenario but, as we discussed in chapter 3, China's currency has recently taken on a greater role in the global economy and control of its exchange rate was pivotal in preventing any escalation of the Asian financial crisis. Moreover, leading financial speculators have encouraged government intervention, e.g. Soros, and greater macro-economic management as essential to the future development of the world-economy and the aversion of financial crises. Stewardship of the IMF's International Monetary and Financial Committee by British Chancellor of the Exchequer, Gordon Brown, in 1999 and 2000 has involved greater emphasis on new modes of governance and regulatory intervention¹⁰ which, sooner or later, would have to include China especially as it moves to full WTO membership. In short, US-China relations have to be recontextualised within a multilateral or global setting reflecting post-hegemonic conditions. If, in the future,

⁸ R Cox, "Middlepowermanship, Japan, and the Future of World Order", in RW Cox with T Sinclair, *Approaches to World Order*, Cambridge, Cambridge University Press, 1996, pp.241-275.

⁹ *Ibid.*, p.253.

¹⁰ Gordon Brown, speaking on Newsnight, 13 April, 2000, stated that he wished global institutions to be more concerned with cooperation between national government's than in imposing solutions.

China is to remain compliant with US Treasury appeals to maintain the value of its currency for the sake of global economic stability, then equal input to global institutions may well be a pre-requisite for cooperation.

The second scenario, outlined by Cox, is somewhat more generic and underscores his personal political commitment to the democratisation of the global economy. The rise of China as Middle Power would certainly raise the profile of developing countries given China's 'dual economy' which straddles the divide between advanced capitalism and semi-feudal agrarianism. In this context it is worthy of noting that China's leaders have maintained strong links with African states which "perceive the PRC as their representative in the Security Council, as sharing similar problems."¹¹ China has continued to support a New International Economic Order (NIEO), if less vociferously than during the Cold War, as well as increased international aid and the removal of trade restrictions on developing states by industrialised countries.¹² Seen in a positive light, then, China's greater presence in multilateral institutions would ensure that development issues form a more intrinsic part of decision making among the world's most powerful governments. Seen in a less positive light, China's current stance may reflect a transient preoccupation with using the African issue to attack Western governments rather than a principled stance in favour of greater global economic equality. The repository for a more democratic world order would seem to be the UN.¹³ The idea of the UN as a forum for a more diffuse dispensation of global power also lies in the fact that the UN has post-nationalist credentials and claims to represent the peoples of the world as opposed to

¹¹ RJ Payne and CR Veney, "China's Post-Cold War African Policy", *Asian Survey*, Vol.38, No.9, 1998, p.871.

¹² *Ibid.*, p.870.

simply national governments. In this way, human rights issues afflicting persecuted minorities, labour rights and a host of other key elements in US-China relations would be brought under the focus of a global organisation less susceptible to the preferences of US policymakers or to cries of 'hegemony' from China's leaders whenever US politicians and NGOs raise concerns about China's human rights record.

Ronald Dore suggests that inter-capitalist rivalry has witnessed an aggressive US unilateralism on trade centered around blaming Chinese and Japanese protectionism for US economic ills. Dore further notes that the result may be "to force Japan and China into a sort of defensive alliance" given the shared nature of their trade quarrels with the US. For Dore, the creation of a more multilateral UN is the key to preventing "Japan-China v US-Europe scenario on trade" in that it would give these powers an equal stake in securing a multilateral world order. In short, creating a stake for these countries in stability is the key. Jisi has pointed to the growing affinity between China and France in the belief that US domination of the global order should be replaced with a more cooperative stance. Indeed, Qian Qichen, China's foreign minister, told a Chinese newspaper that "China does not agree with the view that after the Cold War a new world order should be established under the leadership of one power...In this respect, there are common grounds between China and France."¹⁴ One key factor missing here, however, is that US hegemony and US universalism have, as Cox argues,¹⁵ been based on the exclusively US ability to generate a world culture based not on narrow nationalism, ethnicity, or what divides peoples, but on aspirations, which the left now recognises, towards higher

¹³ R Cox, "Civilisations in World Political Economy", *New Political Economy*, Vol. 1, No. 2, 1996, p. 154.

¹⁴ W Jisi, "The United States as a Global and Pacific Power: A View from China", *The Pacific Review*, Vol. 10, No. 1, p. 15.

standards of living. Moreover, the dangers of so-called 'alternative' forms of global power must also be recognised. China has extreme nationalist and irredentist tendencies, sometimes verging on racism and fascism, while France has well documented problems with the far-right. Indeed, it is for this reason - preventing backward nationalist movements - that the US may need to consider greater multilateralism in the global economy.

The Contested Nature of US-China Policy

A third element to our conclusion surrounds the fact that US 'foreign policy' has been reconceptualised in this thesis to include a range of actors across the state-society nexus as well as the role of foreign actors in determining US state policy. In the first Clinton Administration (1993-1996), for example, inter-bureaucratic rivalries on China policy were pronounced whereas during the second Clinton Administration (1996-2000) there has been much more cohesion and a willingness to accept that the US has limited leverage over China in the bilateral setting.¹⁶ Throughout the Clinton tenure in the White House, Congress has ensured that a vibrant *political* debate has occurred on China from the sponsorship of pro-Taiwan policies and pro-Tibet legislation (see chapter 4) by Republicans, to calls, from both left and right, for protectionism, unilateral sanctions (many of which are still in place) and greater emphasis on human rights. Thus, the Clinton Administration has not simply advanced some innate US policy based on the obviousness of maintaining US market share. The US state has had to develop *political* strategies to accommodate forces arguing for moral and ideological stances far removed from

¹⁵ Cox, "Middlepowermanship, Japan and the Future of World Order", p.256.

¹⁶ Interview, US Department of State, Bureau of Democracy, Human Rights, and Labour, 17 November, 1997.

economic self-interest or some form of economic determinism. The politics of US-China policy is also evident in US civil society where human rights NGOs, trade unions, and Chinese immigrants have contested the efficacy of engaging an authoritarian, and still Communist, regime hostile to civil liberties, as well as environmental matters relating to the US role in China's development.

The role of political agents is also important with regard to China itself. US policies are not simply imposed upon a static Chinese state but are refracted through a Chinese political system in a process of constant evolution. Most importantly, Chinese politics are becoming more diffuse with new economic actors emerging within China's regions and a greater role being given to entrepreneurs and those institutions generating wealth. Political loyalties are often diverted from the state to transnational capital or family networks which span the Asian region. Moreover, disenfranchised economic and ethnic groups are less likely to view their aims as congruous with a state which has, in the process of capitalist restructuring, shed many jobs and created growing disparities in wealth which are clearly delineated in geographical terms. While the broader questions involved here belong to 'China specialists' or practitioners of comparative politics these changes impact heavily on the international political economy of US-China relations because they mean that trade agreements with leaders in Beijing are only one dimension of relations. Implementing and enforcing change, especially on an issue such as Intellectual Property Rights, is often very difficult for a Chinese state slowly but surely divesting much economic power to the private sector. In short, globalisation pressures reconfigure the role of the state *vis a vis* society - a trend as true for China as for the US.

Conclusion: Globalisation and US-China Relations

As we noted in our theoretical chapter, globalisation is not simply an apolitical process driven by the invisible hand of the market. The process has its foundations in neo-liberal policies instigated by the Reagan Administration in the 1980s and the attempt to reassert US hegemony in the world economy. Helleiner states that, “by the early 1990s, an almost fully liberal order had been created across the OECD region, giving market actors a degree of freedom they had not held since the 1920s...”¹⁷ The Clinton Administration has promoted globalisation as a key tenet of foreign policy and, in 1997, US Trade Representative Charlene Barshefsky, spoke of the need for the US to retain “20% of global wealth” arguing that the US was at the “pinnacle of influence” in ensuring the “transmission of US values.”¹⁸ The means to do this, she suggested, was through free trade and the promotion of high-tech sectors of the economy in which the US clearly maintains comparative advantage. However, this policy has also been secured through championing an ideological discourse of globalisation which encourages governments across the world to accept the maintenance of low inflation and reduced state spending as if there were ‘no alternative.’

A senior US policymaker recently stated that contemporary international competitiveness also entails “free access to global information and markets” and that such attributes do not “conform to a highly authoritarian system.”¹⁹ This echoes the neo-Gramscian arguments of William Robinson, noted in chapter 5, concerning the promotion of polyarchical political forms by the US government. Moreover, it is for this reason that the success of US firms,

¹⁷ E Helleiner, “From Bretton Woods to Global Finance: A World Turned Upside Down” in R Stubbs and GRD Underhill (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p.170.

¹⁸ C Barshefsky, Speech on Renewing Fast Track Trade Legislation, The Brookings Institution, September 23, 1997.

with regard to high-tech technology in China, will be increasingly important. As Strange puts it, the importance of keeping control over products and processes, or both, are as integral to the strategies of firms as short-term profit. Moreover, considerations of power in the global economy are key motivating factors for securing market share in areas likely to produce a large yield of political influence in the long-term.²⁰ Thus, capturing the Chinese Internet market will be a major source of leverage for US firms and will also have major implications for the Chinese state and its control of information so instrumental to one-party rule. The structural implications of information technology, then, reach far beyond what we normally associate with trade relations. Indeed, in September 1995, Chinese premier, Jiang Zemin, met with Bill Gates of Microsoft to discuss market access and as part of China's new emphasis on developing its own electronics industry. It is arguable that following China's full entry to the WTO such meetings will carry as much weight as those with any US President as the clamor for independent information by Chinese citizens grows.²¹

In chapter 3 we also discussed Breslin's research relating to the vulnerability of China's reliance on export-led growth and resultant dependence on the vagaries of globalisation. The strategy adopted in parallel with globalisation among Western governments has been that of developing the indigenous technological base, augmenting educational opportunity and developing human capital.

¹⁹ *The Economist*, "Now Comes the Hard Part."

²⁰ S Strange, "The Future of Global Capitalism; Or, will Divergence Persist Forever?" in C Crouch and W Streeck (eds), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, London, Sage, 1998, p.185.

²¹ Research Institute for Peace and Security, *Asian Security*, London, Brassey's, 1997, p. 72

In 1996, moreover, the *People's Daily* went online - though Internet access continues to be controlled by the Ministry of Public security.²² Again, WTO membership is likely to induce greater global activity by Chinese state firms such as the Lian Xiang Group (specialising in computers) as well as speeding up the way in which the informational economy transforms the relationship between the Chinese state and the international political economy. In short, globalisation dictates a rate of technological change that heightens the prospect of outcomes favourable to the US in its dealing with China as the Chinese government is forced to adapt to the wishes of indigenous consumers in order to maintain legitimacy.

As we noted in chapter 3, US FDI in China has become synonymous with the performance of the Chinese economy. In terms of both imports and exports this raises profound question as to whether the Chinese economy is Chinese at all.²³ US structural power over the WTO and the opening of new markets to US firms under the 1999 agreement suggests that economic interdependency between the two nations will continue to grow and deepen despite spats between the two governments at the bilateral level. Clearly, as pointed out in earlier chapters, there are areas where state policy continue to matter particularly in regard to China's careful approach to liberalising its capital account. However, one is forced to conclude that China is moving inexorably towards policies which place politics increasingly at the sufferance of global markets. As stressed throughout this thesis, in order for governments to control globalisation action will be needed at either the regional or global levels and would involve some degree of coordination in macro-economic

²² *Ibid.*, p.73.

economic targets between the world's most dynamic economies. These arguments, propounded most convincingly by Hirst and Thomson's study of globalisation, would require a great deal of time to be realised and would be especially difficult if they are to involve economies as divergent as China and the US.

In this vein, however, US-China relations can increasingly be approached in the context of greater multilateralism rather in the realist tradition of viewing the US as the dominant world power and China as the ascending challenger to the status quo. The neo-Gramscian approach, then, is necessarily complicated and not without its own contradictions but does possess the theoretical range to capture relations between two state-society complexes themselves undergoing structural change from both above the state (globalisation) and below the state (new social forces and democratic pressures). Moreover, globalisation demonstrates that the traditional conception of nations-states and 'US-China relations' is overly simplistic, negating the internationalisation of finance and production as well as the interpenetration of economies and politics.

²³ Strange, "The Future of Global Capitalism." As Strange puts it, "to survive in power, governments in these [developing] societies have been obliged to find the means to raise living standards and rates of economic growth." p.186.

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