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AMERICA-CHINA POLICY: MAINTAINING CONSTRUCTIVE ENGAGEMENT

INTRODUCTION

With the Soviet Union deflated, Iraq defeated, and Libya quiescent, no country stands more brazenly for ideologies and values that Americans find outdated and abhorrent than the People's Republic of China.

Surely George Bush is aware of this. Whether the issue is political, regional, humanitarian, commercial, or connected with international security, Washington repeatedly confronts the question of how best to handle one of the world's least pleasant and least cooperative regimes. Beijing has its own international agenda, not necessarily consistent with any consensus of international interests. Its human rights record is appalling, from Tibet to Tiananmen and beyond. It peddles missiles in the Middle East tinderbox and underwrites some of the world's most reprehensible juntas, like Burma. Hints of change come infrequently and tantalizingly, but always prove illusory—ounces on one side of a scale outweighed by pounds on the other.

No Counterweight. Pressed by legitimate Congressional concerns, the inclination to punish—perhaps even forsake—China understandably is strong. This especially is so in light of the diminished geostrategic value, and influence, of China since the failed August coup in the Soviet Union. Any thought of Beijing as a counterweight to Moscow's adventurism certainly now is as meaningless as it once was compelling.

Still, none of this argues for the United States to become hostile to or even abandon its efforts to deal with Beijing. Bush thus should maintain his course of constructive en-

agement with China. Beijing simply cannot be ignored, particularly as Asia's power politics change in the post-Cold War era. China may be the only brake on North Korea's nuclear ambitions and on a return to power in Cambodia by Pol Pot and the Khmer Rouge. China's active participation and involvement is a key to peace in the South Asian sub-continent as India and Pakistan rush to nuclear power status. By virtue of its size, geographic position, historic role, and the dimensions of its military, moreover, China is regarded in Asian capitals as a vitally important buffer to the twin specters of Soviet disintegration and Japanese expansionism.

Fighting Democratic Evangelism. Indeed, many Asians feel that their region's future balance of power rests solely on the relationship between America, China and Japan. Recently a Korean government official told The Heritage Foundation: "There is a very real fear in Asia that America's democratic evangelism is the opening salvo of a resurgent American isolationism. This, frankly, scares Asians to death. Anything short of an active U.S. presence in the region leaves Tokyo unchecked and Beijing open to worrying uncertainty."

Less uncertain, though, is Asia's sure-footed approach in dealing with China's ever-expanding provincial economies. Set free a decade ago by Beijing's open door policies, the provinces along China's eastern coast have become bastions of economic growth, markedly dependent on foreign investment, private enterprise, and exports for their success. Many coastal cities boast extra economic freedoms, like tax breaks, for foreign trade. For huge swaths of China, filled with several million people, there has been no significant post-Tiananmen repression and no rollback of the reforms that, in the 1980s, made China the most progressive and promising of the world's communist countries.

Glassy High-rises. Take, for instance, the city of Shenzhen, in Guangdong province just across the border from Hong Kong. In 1979, it was a sleepy fishing town with fewer than 100,000 inhabitants. Today, Shenzhen is China's prize "special economic zone" with glassy high-rises, some two million citizens, and a per capita gross national product close to \$2,000 a year; by contrast, China's per capita GNP is about \$350.¹

Asia not only embraces such success, but helps drive it. Shenzhen may be on Chinese soil, but the currency universally used in the city is the Hong Kong dollar. Hong Kong government officials reckon that some 20 percent of its bank notes are circulating in Guangdong.² Japanese business interests similarly extend through the northeastern Chinese provinces of Heilongjiang, Jilin and Liaoning. South Korea exercises a centrifugal pull through its investment and trade links with Shandong province, across the Yellow Sea from the Korean Peninsula. Businessmen from throughout the region work in Shanghai, China's old industrial giant.

1 There are five "Special Economic Zones" in China: Hainan Island, Shantou, Shenzhen, Xiamen and Zhuhai. Created in 1979, these laboratories of capitalism have autonomy in contracting foreign investment and offer lower income taxes, simplified entry and exit procedures and duty-free benefits for certain imports.

2 Conversations in Hong Kong, October 1991.

Slowly, but apparently steadily, parts of China are being incorporated into the East Asian economic miracle. Southern China—the coastal arc that stretches from Hainan Island in the southwest through Guangdong province, adjacent to Hong Kong, and on to Fujian province, opposite Taiwan—already is one of the world's boom economies. By the year 2000,³ predicts the *Economist* magazine, this region could be as rich as southern Europe.³

What the governments and businessmen from Seoul to Singapore have sighted is something Americans have been slower to realize. Specifically, China is now locked into contradictory patterns: 1980s economics and 1940s politics. A decade of economic evolution has moved many of China's provinces and cities away from doctrinaire Marxism and into a kind of market-oriented economy. Despite the best efforts of Beijing's elderly leaders in the past two years to wrestle the nation's economy back under the central planners' control, reform continues through local initiatives. "Hardly anyone believes [Marxism-Leninism-Mao Zedong Thought]," writes James McGregor of *The Asian Wall Street Journal*, "but the party doesn't want to give anybody a chance to admit to each other what everybody is thinking."⁴

Poised for Destruction. What everybody is thinking is that unless the Chinese Communist Party dramatically changes course, it is poised to be destroyed by the very forces it released a decade ago. Reformed communism rapidly is proving to be communism's last stage.

Key to maintaining China's reformist ways is contact with the outside world, particularly with America. That is why Bush correctly has sent Secretary of State James Baker to Beijing this week. The Sino-American relationship, observed Baker on November 3, is burdened by "very real problems, and we cannot expect to make headway with these problems unless we discuss them." Talking is only the first step. Washington also should:

- ◆ ◆ **Renew** unconditionally China's most-favored-nation (MFN) trading status. Of all economic relationships, none is as mis-named as MFN. It extends no favors, to say nothing of extending "most" favors. All it does is give Chinese goods coming into the U.S. the same treatment that the U.S. grants to some 180 other nations, including Iraq, Syria, and a host of other unpleasant regimes. To end MFN status for mainland China barely will pinch Beijing's aging leaders. It will, however, hurt the country's reformers and deal a heavy blow to Hong Kong.
- ◆ ◆ **Continue** to urge Beijing to lower its high tariffs on such American products as instant cameras and print film, and protect U.S. chemical and pharmaceutical patents. To press Beijing, Washington should threaten retaliatory trade measures on textiles and shoes that are produced and exported to the U.S. by China's state-run companies. The Bush Administration also should stress that without intellectual property protection or fair access to the China market for U.S. exporters, Beijing's membership in the General Agreement on Tariffs and Trade (GATT)

3 See: "The South China Miracle," in the *Economist*, October 5, 1991, p.19.

4 See: "China's Conundrum," by James McGregor, *The Wall Street Journal*, September 24, 1991, p.1.

further will be delayed. Since 1986, mainland China vigorously has lobbied to re-enter GATT, which it quit after the communists took power in Beijing in 1949. Consideration of its application has been stalled since the June 1989 Tiananmen Square killings.

- ◆ ◆ **Increase** the number of U.S. government contacts with Chinese provincial leaders. The economic growth in China's provinces diminishes Beijing's control and significantly affects the nation's political course.
- ◆ ◆ **Expand** the commercial affairs sections of the U.S. embassy and consulates in China by increasing the number of Foreign Commercial Service (FCS) and Foreign Agricultural Service (FAS) officers. An increase in such staff will help monitor the economic changes in China's provinces and increase Washington's ability to promote capitalism and growth outside the center of communist power in Beijing. There currently are less than twenty FCS and FAS officers in China.
- ◆ ◆ **Renew** the high-level defense ties with the People's Liberation Army (PLA) that have been cut off since the June 4, 1989, Tiananmen Square massacre. Before this, the Pentagon had extensive and growing contacts with China's military. Restoring these ties, particularly at the level of Assistant Secretary of Defense for International Security Affairs, could give the U.S. some influence in stemming the transfer of Chinese military technology to Algeria, Iran, Pakistan and Syria. Washington should also re-establish PLA and U.S. military exchanges, particularly in the medical and academic fields. Significant evidence suggests that the bloody 1989 crackdown in Beijing has opened deep fissures in the PLA. Generational gaps have developed among ideologically driven veterans of Maoist times and the younger, better-educated officers who want to make the PLA into a modern, professional army. Because the military could prove vital in determining the future political course of China, Washington should now alter its defense policy to better monitor events.
- ◆ ◆ **Reaffirm** previous American assurances that the U.S. will protect the Republic of China on Taiwan's interests in the Washington-Taipei-Beijing relationship. Washington should continue to refuse to consult with Beijing concerning the content of U.S. arms sales to Taipei or set a date for ending these sales. Washington must continue to uphold strictly the 1979 Taiwan Relations Act and maintain the current American policy toward China's reunification, which insists that Taiwan's future is an issue for the Chinese themselves to decide, but it must be decided by peaceful means.
- ◆ ◆ **Make** responsibility for Hong Kong's future an integral component of U.S. China policy. The Bush Administration must recognize that because of its prominent economic and cultural position, the U.S., in effect, has replaced Britain as the preeminent Western player in Hong Kong. While Hong Kong's status as a British Crown Colony once compelled Washington to adopt a low profile regarding the territory's future, the 1997 transfer of Hong Kong to Chinese control now demands greater American attention.
- ◆ ◆ **Continue** to press Beijing on the wide range of human rights problems that burden the Sino-American relationship. From the imprisonment of dissidents, like

Zhou Lunyou or Su Zhimin, to the significant evidence that China exports to the U.S. prison-made goods, the Bush Administration should profile China's human rights problems at the highest diplomatic level, beginning with this week's Baker visit.

THE PEACEFUL EVOLUTION OF CHINA'S PROVINCES

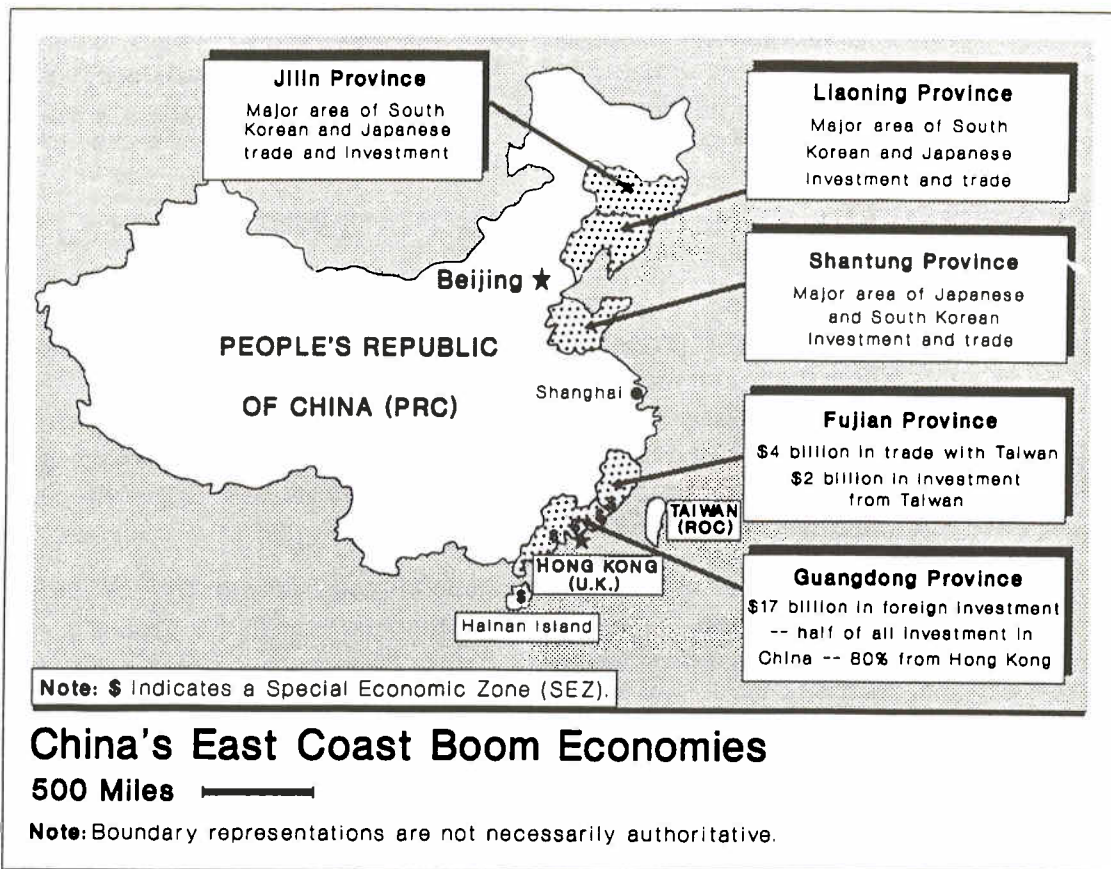
When American policy makers look these days at the economic conditions of the Cold War's two greatest communist powers, what they see is striking. In Moscow, where the Communist Party now is outlawed, political leaders committed to capitalism steer an economy as socialist as anything Lenin and Stalin had in mind. Six years after Mikhail Gorbachev boasted that *perestroika* would transform the quality of life, Russian collective farms continue to stifle rural zeal, state enterprises suffocate industrial ambitions, and private property is still only a promise.

China, by contrast, is an economic miracle in the making. While Russians wait in food lines, China's citizens enjoy economic growth that averaged 9 percent a year through the 1980s. A decade ago, over 80 percent of China's means of production were directly owned by the state. Today, less than half is organized by the state, and it is the less efficient half by far. Individual entrepreneurs, joint-venture partnerships and market-oriented cooperatives control the rest. This year, the burgeoning private sector accounts for almost 70 percent of China's some \$305 billion national income, a level of private enterprise as high as that of France or Italy.⁵

Shirts, Socks, and Ceramics. The size and dynamism of this quasi-private sector squeezes Beijing's old-guard, neo-Stalinist leadership more than any American sanction. The Chinese shirts, socks and underwear that protectionists try to exclude from their markets are evidence of the Chinese state sector's worthlessness: none of these goods come from the command economy, which is as dismal a performer in China as in the Soviet Union. From footwear to toys to plastics, from ceramics to glassware, China obtains virtually 100 percent of its economic momentum from the 50 percent of its economy that is not state-run.

Nowhere does China's private sector run better than in Guangdong (Canton) Province, across from Hong Kong. With 65 million people, it is more populous than any European country except Germany. In 1980, Guangdong's gross domestic product (GDP) was roughly \$14 billion. Ten years later it was almost \$45 billion, surpassing Malaysia's \$42 billion and New Zealand's \$41 billion, a real growth rate of 12.5 percent a year. Thailand, with a population of 55 million and an \$80 billion GDP, had an annual real growth rate of 7.5 percent over the same period. Guangdong is the site of 13,320 foreign investment projects, about half the total of all China, and valued in excess of \$17 billion. Some 80 percent of it comes from Hong Kong.

⁵ See: Nicholas R. Lardy, "Redefining U.S.-China Economic Relations," in NBR Analysis, No.5 (Seattle: National Bureau of Asian and Soviet Research, June 1991).



Hong Kong and Guangdong, in fact, are as close as teeth and lips. The inhabitants of both areas share Cantonese traditions and language. Some 16,000 Hong Kong-owned factories in the neighboring province employ almost three million workers and exported \$10.5 billion worth of goods last year, three-quarters of Guangdong's \$14 billion foreign trade. The relationship has driven the province's per capita income above \$700 a year, double the national average. Much like New York City's influence in northeastern America, Hong Kong is becoming the marketing and managing headquarters for business in southern China.

Lion's Share. The same kind of relationship is taking root in the province just to the north of Guangdong. There, the economic intertwining of Taiwan and China's Fujian province daily grows stronger. With thirty million people—as many as California or Spain—Fujian was one of China's poorest provinces less than fifteen years ago. Today, it is second only to Guangdong as a destination for foreign investment, almost \$2 billion of which originates in Taiwan. Taipei's unofficial trade with China last year probably amounted to some \$4 billion; this year it likely will surpass \$7 billion. Businessmen in the region insist a lion's share of the commerce ends up in Fujian, where some 2,000 factories have been set up to produce the clothes, shoes, and toys that Taiwan once made for export. Now, under the tutelage of entrepreneurs from Taiwan, this production increasingly is turned out by mainland Chinese.

To be sure, more than economics is at work in Guangdong and Fujian. Southern China itself is the heart of an ethnically distinct Chinese network that extends throughout Asia. Guangdong's emigrants are found not only in Hong Kong but in Thailand as

well. The Fujianese diaspora has outposts in Indonesia, Malaysia, the Philippines and Singapore. Common language and culture make doing business on the mainland easy.⁶

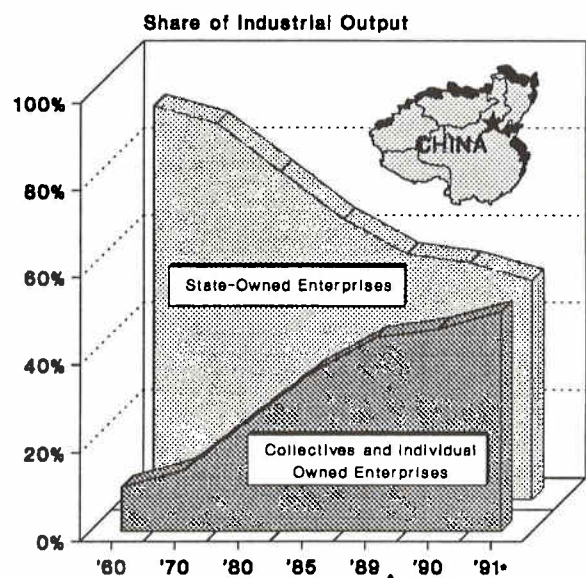
But market forces make business on mainland China irresistible. Labor costs in Guangdong are one-tenth Hong Kong's; Guangdong land rents are only 2 percent of Hong Kong's. The average factory wage in Fujian is less than \$800 a year, about one-tenth the rate in Taipei. A Taipei businessman has told The Heritage Foundation that a square meter of land in Xiamen, Fujian's Special Economic Zone, could be rented for 35 cents a year on a seventy-year lease. In Taiwan, it can run a thousand times as high.

Cradle of Korean Civilization. South Korean businessmen, meanwhile, comb Liaoning and Jilin provinces for investment opportunities. Initially, cultural reasons lured them to the area: Jilin's Changbai Mountains are believed by Koreans to be the cradle of their civilization. But business interests today prominently factor into their China trips. Though Seoul and Beijing do not have diplomatic relations, trade and investment unofficially is said to approach \$4 billion.

Six South Korean manufacturers have set up factories in Dalian, Liaoning's major port, and three others are building factories in Yingkou, just up the coast. The Daewoo Corporation, in fact, is negotiating to build a \$200 million cement plant in Dalian. One reason for the Seoul's swelling investments: China provides a convenient base from which to conduct business with North Korea. Says one South Korean businessman: "Since North and South Korea can't do business with each other, China—with its ties to Pyongyang—is the perfect place to get things going."⁷

The spectacular development of the provincial economies is changing the face of China in fundamental ways. As wealthy Asia becomes economically integrated with continental China's hinterlands, Beijing's control over the economy rapidly diminishes. Observes Warren Williams of the American Chamber of Commerce in Hong Kong: "China's leaders still

Chart 1
Even After Crackdown, State Role in Economy Diminishes



* Estimated.

Source: China's State Statistical Bureau.

Heritage DataChart

⁶ "The South China Miracle," *op. cit.*

⁷ See: "China Redefines Its Ties with Two Koreas," by James McGregor in *The Asian Wall Street Journal*, December 13, 1990, p.1.

maintain influence over any sizable business in the country, foreign or domestic. But real commercial decisions—the stuff that makes business—are made at the local and provincial levels. It's here where the power to direct the economy increasingly emerges.”

This most clearly is seen when Beijing tries to raise revenue. With one-third of this year's central government's \$62 billion budget going towards price subsidies for urban consumers and propping up money-losing state industries, Beijing is trying to increase its tax haul. But in China, the central government does not assess taxes. It begs for them. Provinces and local governments collect all taxes, then bargain with Beijing over remittances. Needless to say, local authorities have balked at the central government's profligate ways—Beijing projects a \$10 billion budget deficit for this year. “The old men are fiscally pressured by the provinces to maintain economic reform programs,” recently commented a Chinese businessman in discussions in Guangdong. “Local government and party leaders listen to Beijing for the latest gossip but they watch the coast to make policies. That's the crucial theme defining China's politics today.”

Evenings Out. Crucial as well is the changing temperament of the provincial work force. Significant areas of China are infected with the ambitions and expectations of their private economies. In Guangdong's capital, Guangzhou, restaurants and night-spots are packed with customers until late in the evening, a rarity in dour Beijing. Shanghai businessmen not only dress like their Tokyo counterparts, but they carry around the same portable telephones; one city official estimates that there are 15,000 portables in Shanghai. Televisions in Fujian pick up Taipei television stations. And businessmen across southern China set their watches to Hong Kong standard time rather than the special summer time decreed by Beijing.

Little wonder that China's elderly leaders fill the newspapers these days with accusations that the outside world, principally America, is masterminding a plot to transform China by “peaceful evolution” into a capitalist country. In some parts of China, capitalism thrives and communism is virtually dead.

ESTABLISHING THE FRAMEWORK FOR A “CONSTRUCTIVE U.S.-CHINA POLICY”

Odd as it may seem to U.S. critics of constructive American engagement with Beijing, China over the past few years has essentially become the sort of economy America wants to encourage. China's rising \$10.4 billion trade surplus with the U.S., for instance, has been ascribed by some American officials solely to unfair trade practices, such as foreign exchange controls and import quotas. In small part, this is true. But it mainly results from the transfer to mainland China of small industries from Hong Kong, South Korea, and Taiwan that produce footwear and toys for export.⁸ China en-

⁸ See: "Growth Under the Gun," by Daniel Southerland, in *The Washington Post*, August 25, 1991, p.H1.

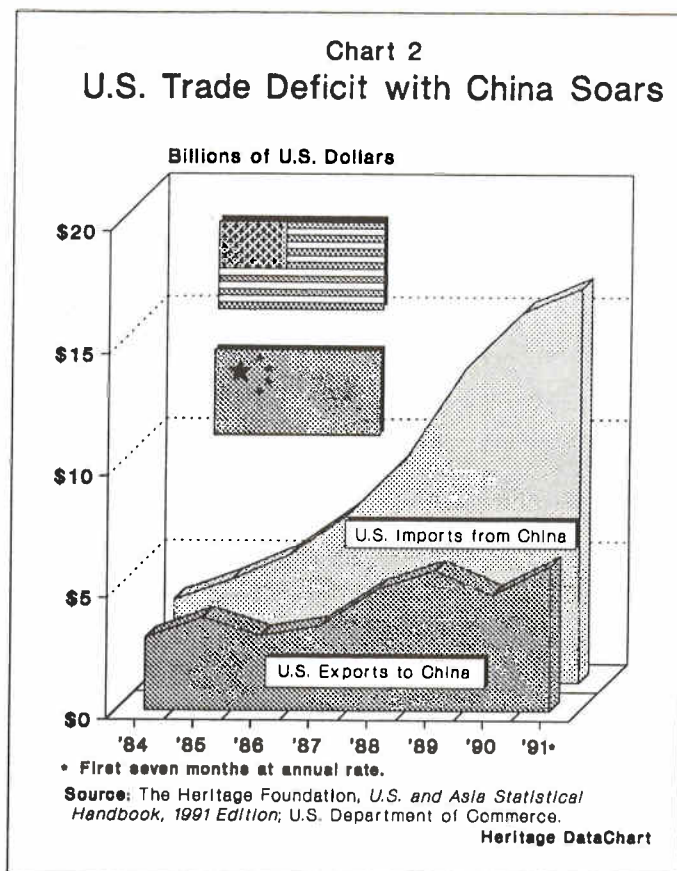
joys a trade surplus because the Chinese economy, unlike the Soviet, produces goods that Americans want to buy.

To be sure, China's reforming economy works in a very unorganized manner. Prices of goods widely fluctuate from true market prices to government decreed prices, from regulated markets to unregulated markets. Chinese businesses often operate in a legal murk. There are endemic shortages of energy and raw materials. China's infrastructure is very bad. And the Chinese financial system provides few places to invest the country's enormous savings—estimated by the *Economist* magazine to be 40 percent of the \$305 billion gross national product.⁹

But China's economy still works. Private enterprise pushes on despite Beijing's edicts. A few old men in Zhongnanhai, China's Kremlin, are powerless to stop the surge.

Demand for Democracy. And they are equally powerless to stop the coming political changes. Asians know this. The so-called "miracle" economies of the Republic of China on Taiwan, Singapore, and South Korea have always led with economic reform, correctly figuring that movement up the economic ladder inevitably leads to political freedoms. A free market increases prosperity; prosperity defuses economic power and thus challenges dictatorial authority. This then, of course, brings a demand for democracy.

This has been the story in South Korea and on Taiwan, both once criticized by human rights activists. This is not to say that human rights can be ignored in China; Washington must press for the freedom of Chinese dissidents. But, as South Korea and Taiwan demonstrate, there is significant evidence in Asia that political freedoms can enter society as a consequence rather than as a determinant of economic growth.



⁹ For an outstanding review of China's economy see: "They Couldn't Keep it Down," in the *Economist*, June 1, 1991, p.15.

The message from Asia to Washington thus is clear: where possible, let China grow. Treat Beijing in as hard-headed a manner as a Shanghai businessman, but keep in place policies of constructive engagement. Specifically, Washington should:

◆ ◆ **Renew, without conditions, China's most-favored-nation (MFN) trading status.**

Such status, granted to China in 1980 and approved annually since then, gives Chinese goods exported to the U.S. the same tariff treatment as that received by approximately 180 other countries that have MFN standing.

MFN is the backbone of America's constructive engagement with Greater China's commercial development. If Washington cuts off China's MFN status, two million workers in South China's export industries will lose their jobs, Hong Kong's business confidence will suffer a near-lethal blow, and working class Americans will pay more for Chinese-made toys, footwear and apparel. Ending China's MFN, moreover, will invite retaliation from Beijing and put at risk the some \$5 billion in U.S. exports to

China. Among the biggest American losers would be wheat growers, who sold \$511 million in 1990; commercial aircraft manufacturers, for whom China has become a dependable \$749 million market; and phosphate fertilizer manufacturers, who consistently sell one-sixth of their entire annual output to China.

◆ ◆ **Continue to prod China to lift its trade barriers.**

Washington's trade problems with Beijing range from inadequate Chinese copyright, patent, and trademark protection on such items as computer software to tariffs that range from 120 percent to 170 percent on American chocolates and instant film.

The Bush Administration should use its support for Beijing's membership in the General Agreement on Tariffs and Trade (GATT) as a carrot to resolve the U.S.-PRC trade problems, informing Beijing that the U.S. will not support China's GATT bid until the PRC's market is open to American exporters. Washington meanwhile also should continue to pursue investigations, under Section 301 of the 1988 Omnibus

U.S. SANCTIONS ON CHINA

Arms and Military Cooperation.

Weapons deliveries remain suspended, as does military cooperation.

Embargo on Sales to Military/Police.

No licences are being issued to civilian technology items that could be used by the Chinese police or military.

Munitions List. Licences for items on the munitions list remain suspended.

Trade and Development Program (TDP) and Overseas Private Insurance Corporation (OPIC). No new activities since June 1989.

Export Control Liberalization. The U.S. remains opposed to considering proposals for easing restrictions on China's ability to purchase militarily strategic goods, like advanced computers, from Western nations.

World Bank Lending. The U.S. remains opposed to all World Bank lending except for basic human needs.

High-Level Exchanges. Regular, high-level exchanges, particularly those of a formal, ceremonial nature, remain suspended. Exceptions have been granted only to pursue issues of vital concern such as human rights, missile sales, and Iraq's invasion of Kuwait.

Source: U.S. Department of State.

Heritage InfoChart

Trade and Competitiveness Act, to compel Beijing to abolish its trade barriers. On November 26, a six-month investigation of China's intellectual property protection will close. If U.S. investigators determine that China refuses adequately to protect such products as American music recordings, U.S. Trade Representative Carla A. Hills has thirty days to announce retaliatory tariffs on Chinese exports to America. A similar year-long investigation into PRC market barriers, including China's arbitrarily imposed and frequently unpublished import regulations, was launched on October 10.

◆◆ **Increase pressure on Beijing to halt exports to the U.S. of goods made in Chinese prisons.**

The Bush Administration should press ahead with plans to negotiate with China what in diplomatese is known as a Memorandum of Understanding (MOU) to explore charges made at an October 17 Senate Foreign Relations Committee hearing that specific products exported to the U.S. are manufactured in China by prison labor. Exporting convict-made goods to the U.S. is prohibited by the United States Tariff Act of 1930. That law has been applied once, in 1951, in a case that involved Soviet canned crab meat. It should be applied again if necessary.

◆◆ **Renew high-level American defense contacts with China's military leadership to address missile proliferation problems.**

Cut off since the 1989 Tiananmen Square massacre, Washington's once extensive and growing ties to the People's Liberation Army should be re-established to help stem the transfer of Chinese missile technology. Beijing emerged as a leading arms supplier to the Third World over the past decade, signing agreements between 1983 and 1990 to sell \$16 billion in arms to such pariah states as Iran, Iraq and Syria. In the arsenals of these countries, China's so-called "M" family of Short Range Ballistic Missiles (SRBM), with ranges between 180 miles and 375 miles, seriously threaten the peace in the Middle East and South Asia. Chinese technology, moreover, could be helping Algeria and Iran to assemble nuclear weapons.

Missile Control. The Bush Administration has pressed Beijing to sign international agreements on missile control, like the Missile Technology Control Regime (MTCR). This is a group of eighteen nations pledged to halt the spread of medium-range missiles like China's "M" family of SRBMs.¹⁰ In June, Washington dispatched Undersecretary of State for International Security Affairs Reginald Bartholomew to Beijing to discuss missile proliferation issues. But more clearly needs to be done.

Bush now should direct newly appointed Assistant Secretary of Defense for International Security Affairs James Lilley to visit China to discuss missile proliferation issues. As the U.S. Ambassador to China between May 1989 and May 1991, few are as qualified as Lilley to renew the wide-ranging and substantive dialogue between American and Chinese military leaders that existed before the carnage in Beijing two years

10 The eighteen members of the Missile Technology Control Regime are America, Australia, Austria, Belgium, Britain, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Spain and Sweden.

ago. The last high-level meeting between the two defense establishments was by Vice Admiral Henry E. Mauz, Jr. in May 1989 when three ships of America's Seventh Fleet, its flagship the U.S.S. *Blue Ridge* and the destroyers U.S.S. *Sterett* and U.S.S. *Rodney M. Davis* made a Shanghai port call. Washington also should re-establish the so-called "functional exchanges" between members of the two defense establishments. Such exchanges should concentrate on academic ties and initially could be coordinated through the nations' respective defense universities.

◆ ◆ **Increase government-to-government contacts with China, particularly with leaders from the provincial governments.**

This week, in fact, a delegation of Chinese Provincial Governors, led by Guo Shuyan of Hubei Province, is visiting Washington. Such contacts should be increased, particularly through the United States Information Agency's (USIA) International Visitors Program. USIA has similar programs that bring respected American authors, academics, and other professionals to Chinese audiences.

◆ ◆ **Expand the commercial affairs sections of the U.S. embassy and consulates in the PRC by increasing the number of Foreign Commercial Service (FCS) and Foreign Agricultural Service (FAS) officers.**

Of the approximately 175 U.S. government employees presently working in China, fewer than twenty are FSCs or FASs. Assigned to the U.S. Embassy from the Departments of Commerce and Agriculture, respectively, these foreign service officers not only help U.S. businesses locate Chinese buyers, assist with contract negotiations, and help resolve contract disputes, but also monitor economic developments throughout China's provinces. They are extremely well qualified to chart the changes taking place in China's hinterland. Their number should be increased in the U.S. embassy in Beijing and the U.S. consulates in Chengdu, Guangzhou, Shanghai, and Shenyang.

◆ ◆ **Clearly state that Taiwan is a part of China and the issue of Taiwan's future must be decided peacefully.**

For four decades, nationalist Taipei and communist Beijing stared each other down, prolonging hostilities that began with the Communist takeover on the mainland in 1949. Since the mid-1980s, however, relations have warmed as the mainland and Taiwan increasingly are being stitched together by growing commercial links across the 100-mile wide Taiwan Strait. Taipei this May even lifted its four-decade-old formal "State of War" with the Chinese Communists. Still, the governments do not recognize each other. Beijing, in fact, continues to reserve the right to use force to seize Taiwan, which it regards as a renegade province.

Taipei rapidly is becoming democratic and will hold its first National Assembly elections in four decades on December 21. In recognition of this progress towards democracy, Washington now more than ever must reaffirm those American assurances that Taipei sees as essential to defend its interests. Such assurances include: U.S. promises to resist Beijing's pressures either to end or reduce American arms sales to Taipei; U.S. refusal either to mediate between Beijing and Taipei or exert pressure on Taipei to enter into negotiations with Beijing; and U.S. pledges to uphold the 1979 Taiwan Relations Act.

◆ ◆ **Begin crafting a policy that explicitly defines the U.S. interest in Hong Kong's future.**

It may be a British Crown Colony, but Hong Kong in many ways has become an American economic and cultural outpost. Hong Kong purchased \$6.6 billion worth of American products last year, on a per capita basis three times the amount of Japan's 1990 American imports, making Hong Kong the world's thirteenth largest market for American goods. America is Hong Kong's largest customer, consuming 29.4 percent of its annual exports. Hong Kong is the base for more than 900 American firms, the home of almost 18,000 Americans, and the destination of more than 600,000 American tourists annually. When Hong Kong reverts to China on July 1, 1997, the British stake in its colony almost certainly will be overshadowed by the American stake.

The Bush Administration should begin working with Beijing to assure Hong Kong's economic and political stability up to and beyond 1997. Washington should stress to the Chinese that Hong Kong's political and economic stability largely is dependent on their commitment to fulfill the promises of the 1984 Sino-British Joint Declaration. This is London and Beijing's agreement to respect self-rule and capitalism in Hong Kong after it passes to Chinese control.

Congressional concern about Hong Kong's future becomes clearer every day. Just last month, Senator Mitch McConnell of Kentucky and Representative John Porter of Illinois, both Republicans, introduced in Congress the U.S.-Hong Kong Policy Act of 1991. This legislation, if passed, will monitor Beijing's behavior in Hong Kong after 1997, requiring the State Department to issue annual reports on Beijing's compliance of the Joint Declaration. If the Administration does not move to make Hong Kong a key ingredient of its China policy, Congress obviously threatens to do it for them.

◆ ◆ **Continue to press Beijing on human rights concerns.**

Bush correctly dispatched Assistant Secretary of State for Human Rights and Humanitarian Affairs Richard Schifter to Beijing last December to discuss human rights problems. The Chinese at the time gave Schifter information on the status of some Tibetan clerics and Catholic priests imprisoned for religious activities.¹¹ But problems like the jailing of dissidents Wang Juntao, Chen Ziming and Wang Dan still remain. Secretary of State Baker should make this a high profile element of his China visit, insisting Beijing make public the names of those still imprisoned, the charges against them, and the dissidents' mental and physical condition.

CONCLUSION

The view of the outside world presented by Chinese leaders to their people portrays China as the target of a bitter and deceitful conspiracy of sabotage and infiltration. Declares a September 5 *People's Daily* commentary: "With the dramatic changes in the

11 See: "U.S. Asks China to Free 150 Dissidents on List," by Lena H. Sun, in *The Washington Post*, December 20, 1990, A25.

international situation, Western hostile forces have not only accelerated the pace of peaceful evolution against socialist states, but have increasingly regarded China as the main stumbling block to their pursuit of power politics and the defeat of socialism." Then it adds: "It was the dream of former American Secretary of State John Foster Dulles that evolutionary change would come to communist countries as future generations take over; it is the same dream today. It will not happen."¹²

Way to Communism's Downfall. Or will it? Despite the nature of the rhetoric, such commentaries do suggest something intriguing about the fate of communism in the new world order. Meaning: China is working evidence that there are two ways to bring about the downfall of totalitarian communist regimes. One way, the method used by America on Moscow and its satellites, was a four-decade struggle of containment and isolation. But Cold War need not be the only way. "Peaceful evolution" works as well. China's opening to the outside world over the last decade has moved the country so far towards a market economy that, with luck, there will be no turning back. Its Asian neighbors know this. They also know that increasing prosperity frequently brings political rights and civil liberties in its wake.

Washington should note their success and pull Beijing in as close as possible.

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12 See *Renmin Ribao*, September 5, 1991 (domestic version), p.1. For an outstanding discussion of "peaceful evolution" in China see as well: "Changes in China Stir Fear of U.S.," by Nicholas D. Kristof, in *The New York Times*, September 18, 1991, p.A7.