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UPDATE

CHINA SHOULD ADHERE TO RULES OF THE ROAD

(Updating *Backgrounder* No. 130, "Ending the Confusion in U.S. China Policy," April 18, 1994.)

Deng Xiaoping is ailing and the power struggle over succession is already underway in Beijing. The struggle is being waged between reformers who want to bring the People's Republic of China into the world community and hard-liners who, embittered by the loss of central authority caused by new-found economic freedoms, want to block the reformers' opening to the outside world.

The debate focuses on a variety of issues, both internal and external, from the pace and substance of economic reform to the nature of the PRC's relations with the international community, including the United States. The outcome will determine whether China accepts the norms of the international community or attempts unilaterally to define its own standards of international behavior.

China's recent behavior includes defying international norms of behavior and breaking international agreements. For example, Beijing dispatched a naval task force to the South China Sea in February and built a makeshift base on Mischief Reef to strengthen its territorial claim to the Spratly Islands. Occupying this atoll, which lies well within the 200-mile exclusive economic zone of the Philippines, puts Beijing at odds with the Law of the Sea Convention signed in 1982. In addition, China allegedly has violated the guidelines of the Missile Technology and Control Regime, an arms control agreement to limit the spread of ballistic missiles, by exporting M-9 missile technology to Pakistan. Finally, the PRC has been trying to write its own rules with respect to joining the World Trade Organization (WTO), the new global trade institution that replaced the General Agreement on Tariffs and Trade (GATT) on January 1, 1995.

The U.S. must make clear to Beijing that such behavior is unacceptable to the entire international community. The goal of America's China policy should be to encourage the PRC to adhere to international "rules of the road" governing trade, nuclear and missile proliferation, and the use of military force. This means laying out clearly what these rules are and telling the Chinese that the level of U.S. cooperation or opposition depends on how well Beijing adheres to them. The message can be conveyed in a series of high-level official meetings that focus on specific issues and do not become bogged down in theoretical and never-ending discussions of the general U.S.-China relationship. High-level visits could be used to persuade the Chinese to be more open about their armed forces and their military intentions in the South China Sea. They also could serve to convey displeasure with Beijing's recent moves to silence dissidents asking for political liberalization and its unwillingness to renounce the use of force to solve its differences with Taiwan. The Chinese must understand that breaking the rules of the road will come at a price.

This policy also has another, more positive aspect. The more China develops a market economy, the more it will need the legal and technical expertise of the West. Beijing welcomes the economic growth unleashed by market growth but is uncomfortable with the freedom and outside influences needed to make the market work. This is an opportunity for the United States. Washington should help Beijing help itself,

but only in ways that foster reform. For example, the U.S. could offer China advice and assistance not only on how to manage some of its growing economic problems, but also on how to reform its legal system. This would encourage market and reformist forces—primarily China's growing entrepreneurial class—who want to open the PRC to the outside world and would be a wise investment in a class of people who, like the U.S., want Beijing to follow international rules of the road in its trade and military policies.

China's Troubled Transition

Size and growing economic influence make the People's Republic of China a major power in Asia. This fact increasingly will shape U.S. policy in Asia in the coming decades. Also shaping U.S. policy, however, will be the extent to which the upcoming struggle over who succeeds Deng Xiaoping influences political stability and economic reform. If China becomes politically unstable and backtracks on reform, its foreign policy will be less cooperative and may even be dangerous for the region. If the PRC continues more or less down a linear path of liberalization, its foreign policy may well be more cooperative and far less of a threat. Either way, how China deals with its many political and economic problems will influence significantly the degree to which it isolates itself or adheres to international norms.

The Emerging Power Struggle. China's paramount leader, Deng Xiaoping, is very ill and may not survive long. Recognizing the need for a smooth transition, Deng in 1989 chose then Shanghai mayor Jiang Zemin as his successor. Although lacking the charisma of Mao Zedong and Deng Xiaoping, Jiang has managed the government and strengthened his power base by appointing his supporters to top positions in Beijing. However, he is widely regarded as a transitional figure; Deng's two previous heirs, General Secretaries Hu Yaobang and Zhao Ziyang, both were casualties of factional disputes in the 1980s similar to those underway in China today.

Contemporary Chinese history shows that the armed forces have played a deciding role in political struggles, even those involving such skilled, charismatic leaders as Mao Zedong or Deng Xiaoping. In the 1960s Mao called on the military to end the factional violence, begun at his behest, that threatened to plunge China into chaos. For his part, Deng parlayed his long-standing ties to the military after Mao's death in 1976 into a power base more stable than those of any of his rivals. In fact, China's recent military modernization program is partly a bow to the armed forces' consistent support for Deng's regime.

In the absence of a "paramount" leader to assume Deng's mantle, the role of the People's Liberation Army (PLA) in shaping China's future will be large. Even given the lingering resentment over its role in the Tiananmen Square massacre of June 4, 1989, the PLA's standing with the public is much higher than that of the Communist Party. Thus, Deng's successor could rise from the ranks of the military.

China's Growing Problems. Underlying this question are China's many economic and political problems. Paralyzed by the prospect of succession, China's government is unwilling to undertake the kinds of reforms that would ease the problems of inflation, corruption, state enterprise reform, and growing unemployment. Competition among the country's leaders has increased the likelihood of instability after Deng's death, leaving them even less able to deal with political, social, and economic pressures.

Despite claims by the government that inflation has been subdued, the national rate remains above 20 percent (the urban rate of inflation topped 30 percent in 1994). Behind the high inflation rate, however, is a larger problem: China has yet to develop a macroeconomic system that can control or guide the economy while avoiding the highs and lows that have marked reform efforts to date. Such controls would bolster international investor confidence, which is vital to a country with limited domestic capital markets. But reforms also are necessary to restructure the bankrupt state-owned sector of the economy, which still absorbs over 40 percent of the central government's resources.

China's newly rich, once satisfied with material advancement, are beginning to grow curious about such things as government accountability and democratic politics. The political liberalization of Taiwan and South Korea shows that even authoritarian societies can adopt more pluralist systems as they become more

prosperous. Beijing, although wary of easing control over the country, eventually will have to answer to this rapidly growing class of entrepreneurs. Another class feared by the government is the migrant workforce, which exceeds 130 million people and is expected to reach nearly 400 million by the year 2000. Urban areas, already swamped, cannot hope to provide employment or proper housing for the millions of Chinese who flee the countryside looking for work in the cities.

China's citizens, facing another year of static wages and rising food prices, are demanding a solution to their country's many economic problems. What they are getting is widespread government corruption. Corruption has become so prevalent that, at the opening of the National People's Congress in 1995, Chinese Premier Li Peng characterized tackling corruption as "a matter of life and death."¹ China's leadership recognizes that popular revulsion over Party graft was a principal factor in the 1989 disturbances that led to the Tiananmen Square massacre. Nevertheless, despite popular revulsion, corruption continues to grow.

Breaking the Rules of the Road

China's leaders perceive these difficulties, whether economic or political, as fomented from "outside." From their perspective, China should be assuming a greater role in the region and in the world community. At the same time, they see the United States stepping in and demanding that China accept concessionary trade and security agreements in which it had little or no formative role. And while they recognize that Asian stability and economic growth for the past four decades have been underpinned by a strong American military presence, they also believe it is only a matter of time until China replaces the U.S. as the dominant power in the region.

This self-image undergirds China's attitude toward compliance with international agreements and international norms and standards. One area in which Beijing has been a consistent problem is international trade. Many Chinese firms continued to churn out counterfeit computer software and compact disks that cost U.S. industry hundreds of millions of dollars annually right up until the settlement deadline set by the U.S. in February. Many of these firms are state-owned. Beijing also has protected state-owned firms from foreign competition by maintaining an arbitrary and opaque trade system. The government, for example, has tried to limit the rate of return on large foreign investment projects on the grounds that China should not be "exploited" by foreigners.

China also has broken its word to the international community with respect to the proliferation of ballistic missile technology. While promising to adhere to terms of the Missile Technology and Control Regime in 1992, Beijing is suspected of transferring M-9 intermediate-range ballistic missile technology to Pakistan. Similarly, in 1993, former CIA Director James Woolsey cited China as Iran's most important source of nuclear technology and claimed that transfers have allowed Iran to continue its quest for nuclear weapons.² China also has refused to halt nuclear weapons tests despite the moratorium by other nuclear powers.

Across the Asia-Pacific region, China's many disputes with other countries over the South China Sea have resulted in the fear that Beijing wants to play the role of regional power broker. In this simmering conflict with such countries as Vietnam, Taiwan, and Malaysia, China refuses to relinquish its claim to virtually the entire South China Sea. It raised tensions in early February by occupying territory in the Spratly Islands claimed by the Philippines. Moreover, the anxieties of China's neighbors are heightened by uncertainty over its intentions towards Taiwan. Beijing continues to threaten Taipei with military force.

1 Patrick E. Tyler, "Chinese Leader Says 'Mistakes' by Government Fueled Inflation," *The New York Times*, March 7, 1995, p. A1.

2 CIA Director James Woolsey, congressional testimony excerpted from "The CIA and Non-Proliferation," *Middle East Defense News*, April 5, 1993, p. 2.

All of this is occurring against the backdrop of China's growing military modernization, which includes trying to build a blue water navy. China recently backed away from plans to purchase an aircraft carrier from Ukraine because of cost and capability constraints, but it continues to conduct feasibility studies about such an acquisition. Purchases of strike aircraft and modern diesel submarines from Russia illustrate that Beijing is stepping up a systematic program of military modernization aimed at increasing its ability to project power by land and by sea. Why China needs such a force projection capability is both a mystery and a source of concern to Beijing's neighbors. So, too, is the PRC's continued effort to modernize and enlarge its ballistic missile forces at the same time the rest of the world is steadily downsizing nuclear arsenals.

China's Economic Problems: Beijing's Dilemma, Washington's Opportunity

China's command-and-control economy is changing slowly into a market economy as the Chinese people become increasingly impatient with the country's old authoritarian system and demand more accountability from government. This translates into a growing public desire for a less arbitrary government and a more accountable legal system. On top of this, the need for economic efficiency is increasing the demand for foreign management and technical expertise. The upshot is growing popular pressure not only for outside contacts, but also for a more open and pluralistic political system.

The United States should take advantage of this pressure. A growing avenue of influence for the U.S. is the emerging commercial and professional classes. Entrepreneurs up and down China's "gold coast" are exercising new freedoms, and it is these freedoms which are fueling the economic boom. To avoid being overwhelmed by a flood of unemployed and migrant workers, the prosperous coastal regions will require continuing access to foreign capital and markets. This will allow the economic boom to spread to the interior, creating jobs and improving the living standards of China's inland population. At the same time, factory managers in money-losing state enterprises are eager to reform but will need greater access to American management and technology to succeed.

For this process to proceed smoothly, there must be American and other foreign participation: skilled professionals, accountants, teachers, and lawyers to manage the evolution of China's economy and society. While a dilemma for Beijing—increasing outside contacts risks greater instability—this represents an opportunity for the U.S. to encourage the sort of domestic change that can lead to the further liberalization of China's economic and political system.

Adhering to Rules of the Road

The best way for the U.S. to encourage China to adhere to international norms and standards is to describe clearly what these norms and standards are and then to tell the Chinese that the degree to which they comply with these rules and standards will determine the costs and benefits of their relationship with the United States.

To convey such a message, the U.S. should discuss specific issues in high-level meetings. The Clinton Administration, recognizing the value of high-level ties with China, has dispatched several Cabinet members to Beijing during the last twelve months. However, the over-emphasis on business matters and conflicting interests has blurred American interests and provided ample opportunities for the Chinese to exploit. For example, Commerce Secretary Ron Brown and Energy Secretary Hazel O'Leary traveled to China in 1994 and 1995, respectively, yet made little progress in attaining Chinese promises to reform key sectors of trade and investment systems that limit American involvement in China's economy. Instead, they concentrated on bagging big projects for U.S. businesses.

The U.S. should stick to specific issues at these high-level meetings and not digress into theoretical discussions that enable the Chinese to avoid concrete commitments. The focus should be on issues that,

though beneficial to both countries, primarily represent an advancement of U.S. interests in the region. Thus, the U.S. should:

- ✓ **Formulate an action plan for implementation of the February 1995 signed agreement on intellectual property rights.** At the heart of this plan should be strict Chinese adherence to the terms of the Beijing agreement. The U.S. should insist first that the 26 factories known to be producing counterfeit goods be shut down by the end of the year. The establishment of a regular channel of communication between the Chinese State Council and the U.S. Embassy over IPR policies is essential. Finally, as the February agreement stipulates, China must accept the technical assistance of U.S. agencies to ensure the effective implementation of new IPR mechanisms and laws.³
- ✓ **Encourage China to end its insistence on entering the WTO as a “developing country.”** Given the size of its economy, as well as its position as the 11th largest trading nation in the world, China simply does not merit the benefits and protection normally afforded developing nations under the WTO. China’s entrance into the WTO as a “developed country,” as the U.S. and European Union demand, would not require China immediately to throw its economic system open to the world. Liberalization would be required over a period of years, ultimately supporting the very types of reforms that China needs if it is to continue its economic growth.
- ✓ **Urge China to become more open about its treatment of political dissidents.** The U.S. should make clear that China is expected to live up to its own laws and to protect the rights of its citizens. These include the right to question government policy and to seek redress of grievances in civil courts. China also should be asked to open its prison system to inspection by the International Red Cross. It promised to do this two years ago but so far has failed to honor this commitment.
- ✓ **Enhance U.S. contacts with the Chinese military.** The possibility that China’s next leader might rise from the ranks of the military makes it essential to develop the existing military-to-military ties between the U.S. and China. Enhanced ties with the PLA could offer crucial insight into both the governing process and the changing political direction of China. Therefore, the U.S. should support officer exchanges with all branches of the military. These would expose Chinese officers to the American military and civil society while facilitating the development of institutional contacts and informal networks needed to build trust and gauge mutual intentions.
- ✓ **Recommend that the Chinese military be more open about its modernization program.** The PLA should be encouraged to issue “white papers” describing its positions on various issues and fostering greater transparency in its defense policies. Increasing transparency would enhance stability, which in turn could slow the mounting arms buildup in Asia. The upcoming visit to the U.S. by General Xiong Guangkai of China’s general staff should be used to gain a clearer picture of China’s military doctrine and intentions. Additionally, the visit by U.S. Admiral Richard Macke, Commander in Chief of the Pacific Fleet, to China in April should be used as an opportunity to encourage greater transparency on the part of the PLA.
- ✓ **Discourage Chinese military adventurism and unilateralism.** The U.S. should warn the Chinese that the recent occupation of Mischief Reef in the Spratly Islands is unacceptable. It is a direct violation of China’s pledge in the 1992 declaration of the Association of South East Asian Nations (ASEAN) to settle disputes in the South China Sea peacefully. The U.S. also should inform the Chinese of its concerns about the transfer of missile technology to Pakistan and nuclear technology to Iran and Algeria. To signal its displeasure, the U.S. should postpone further reciprocal port calls by naval warships

3 Ambassador Michael Kantor, United States Trade Representative, testimony before the House Ways and Means Subcommittee on Trade, March 9, 1995, p. 4.

until China participates substantively in regional security dialogues and accepts a greater international responsibility to curb the proliferation of nuclear technology and weapons of mass destruction. The March 23 port call to Qingdao by the American *Aegis* class guided-missile cruiser Bunker Hill should be the last such call until China has exhibited a commitment to this sort of transparency.

- ✓ **Support the establishment of an official forum to deal with disputes on the South China Sea.** The Chinese should be urged to support the transformation of informal South China Sea workshops set up by Indonesia into an official negotiating forum under the auspices of the ASEAN Regional Forum, which was created expressly to deal with security disputes in Southeast Asia. These talks would expand upon the Chinese position of deferring claims to sovereignty and jointly developing resources in the region.
- ✓ **Invite Beijing to declare its peaceful intentions toward Taiwan.** Without a declaration of peaceful intent, Beijing's overtures to Taiwan's government and people will be regarded as empty rhetoric. A statement of Beijing's peaceful intent would do much to reduce tensions between the two sides and improve the chances for substantive negotiations across the Taiwan Strait. At the same time, the U.S. should stress that Taiwan has the right to provide for its own defense and that the U.S. has the responsibility both to live up to the 1979 Taiwan Relations Act and to provide Taiwan with the weapons it needs to defend itself.
- ✓ **Offer assistance and cooperation in areas that promote reform.** China needs America's business expertise and technology in order to grow economically. This provides an opportunity to assist the cause of reform in ways the Chinese may find it difficult to refuse. To advance reform and spur the growing entrepreneurial class in China, the U.S. should facilitate Chinese students' access to American law schools. Legal reform will require professional, well-trained lawyers, and China's schools cannot meet this tremendous demand on their own. American assistance could provide the framework for legal reform that affords better protection for America's legal, commercial, and private interests in China. Moreover, the U.S. should encourage Chinese students studying in America to join U.S. alumni and professional associations. Since 1989 PRC students have made up the largest foreign contingent enrolled in American colleges. In the last two years these students, previously reluctant to return to their country because of its repressive system, have begun to go home. Most of them hold degrees in science-related fields like engineering or medicine and eventually will make up a large proportion of China's professional class. Involving them in U.S. alumni and professional associations would increase American contact with this influential part of Chinese society, ultimately improving the overall relationship between the two countries as these people assume key positions in the Chinese government.

Conclusion

China poses a huge strategic and geopolitical question mark for the United States. Its size and growing economic power make it supremely important to U.S. strategic and economic interests in Asia. While the outcome of the ongoing power struggle inside China is uncertain, one other thing is not: the need for the United States to develop a coherent and consistent policy toward China that advances reform, openness, and respect for international standards of behavior by Beijing.

The best strategy for the U.S. is to engage Beijing selectively, formulating and communicating the rules of the road and informing the Chinese that the degree of cooperation or opposition from the U.S. depends on how well they adhere to these rules. By doing this, the U.S. can help China in ways that advance liberalization and democratization. At the same time, this "carrot and stick" approach informs the Chinese that they will pay a price for breaking their international obligations. It also weakens their ability to mask their true intentions, which often are not benign, behind a wall of confusing and ambiguous arguments about principles and differences with the United States.

China is a challenge for the U.S., but not an insurmountable one. The key for the U.S. is to be clear about its own interests—something which has been lacking in the Clinton Administration. The sooner the U.S. gains a proper grasp of its own needs and interests with respect to China, the more successful its policy toward China will be.

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