

A SCORECARD FOR U.S.-CHINA RELATIONS

(Updating *Background* Update No. 243, "China Should Adhere to Rules of the Road," March 29, 1995)

China's emergence as a great power will be one of the defining issues of international relations in the 21st century. For the United States, the fundamental policy question is what kind of power China will become. Will it accept and observe the norms of the international community, or will seek to develop its own rules of the road?

One way to assess China as an emerging power is to weigh Beijing's conduct against a number of international norms and obligations as they affect U.S. national interests. What follows is a scorecard on how well China is doing so far.

✓ **Intellectual property protection: Promising.**

The U.S.-China agreement of February 26, 1995, mandated tougher Chinese protection of intellectual property rights. It is estimated that illegal copying of American products such as computer programs, films, compact discs, and books by Chinese enterprises cost American firms \$800 million in 1993 and over \$1 billion in losses in 1994. The intellectual property accord was widely, albeit cautiously, celebrated as signaling a new "maturity" in the U.S.-China relationship.

The Clinton Administration made it clear to Beijing that a resolution of the issue was of vital importance not only to the U.S., but also to China's overall national economic interest. If China is to develop a world class economy in the 21st century, it will have to respect intellectual property rights. During the final days of negotiation, Beijing displayed a surprising readiness to accept international standards of intellectual property protection as it became clear that the U.S. would not budge on this issue.

The agreement covers immediate actions to shut down pirate operations; the establishment of administrative structures at national, provincial, and lower levels to deal with problems relating to enforcement; and promotion of market access. Implementation will be reviewed on a quarterly basis beginning in June 1995.

Though piracy will be difficult to stop across the breadth of China, the PRC's focus on economic modernization promises enhanced cooperation on the protection of intellectual property rights.

✓ **Accession to the World Trade Organization (WTO): Not this year.**

China's entry into the Geneva-based World Trade Organization would benefit China as well as the rest of the international community. China is the eleventh largest trading nation in the world. It is also the world's fastest growing economy. Nonetheless, China has insisted on entry as a "developing nation," which would give it more time to remove market barriers and thus lower the cost of entry. The U.S., backed by the international community, opposes this.

China, however, continues to insist that it will not change its position until Washington ends the requirement for an annual review of its trading status under the 1974 Jackson-Vanik Amendment, which linked freedom of migration to the granting of most-favored-nation trade status to countries with non-market economies. Granting China's wish would give Beijing permanent, unconditional MFN status. The U.S. regards this demand as effectively ending any hope for China's accession to the WTO this year.

China's stand appears intended to test international support for the U.S. position. Beijing is attempting to exploit the European Union's growing business interests in China, hoping the Europeans will support its bid to enter the WTO before necessary economic reforms are agreed upon, rather than afterwards.

With both China and the U.S. taking firm positions on WTO accession, little progress should be expected this year.

✓ **Proposed nuclear technology sales to Iran: Going ahead.**

Notwithstanding the concerns of the U.S. and international community, China appears intent on completing a variety of business deals with Iran that could threaten international security. Foremost among them are the building of two 300-megawatt pressurized water reactors and the transfer of nuclear technology.¹

Beijing sees the reactor deal as a way to earn billions of dollars of hard currency and to enhance its ties to oil-rich Iran at a time when China's petroleum imports and energy needs are rising steadily. China has brushed aside questions of why Iran, an oil-rich state with a record of supporting international terrorism, needs nuclear technology. Beijing asserts that all these transactions will be monitored under the inspection mechanisms of the nuclear Non-Proliferation Treaty (NPT), to which both China and Iran are signatories.

Given the financial and geopolitical payoffs, as well as the current state of PRC-U.S. relations, Beijing undoubtedly will move ahead with the nuclear deal.

✓ **Nuclear testing: Will continue.**

China's willingness to conduct a nuclear test so soon after the Non-Proliferation Treaty review conference, which ended last month in New York, indicates that it sees modernization of its strategic nuclear forces as a national priority. China conducted this underground test on May 15, a little over six months after its Foreign Minister announced at the United Nations that it would sign the Comprehensive Test Ban Treaty in 1996. China's test drew a vigorous diplomatic protest from Japan.

China's underground testing will continue, given Beijing's emphasis on the safety and modernization of its deterrent force.

✓ **Missile Technology Control Regime (MTCR): Deviations likely.**

The MTCR is a G-7 gentleman's agreement intended to control the proliferation of nuclear technology. It evolved from G-7 summits of the mid-1980s.

China, though it played no role in developing the MTCR and is not a member of the regime, agreed in March 1992 to abide by MTCR parameters and guidelines. In 1993, however, the U.S. imposed sanctions on China after accusing Beijing of shipping missile parts to Pakistan. In October of 1994, sanctions on the transfer of satellite technology were lifted in exchange for China's commitment to curb the spread of missile technology. Specifically, China agreed "not to sell surface to surface missiles 'inherently capable' of delivering a 500 kg warhead at range of 300 km or more."² In reaction to the Clinton Administration's deci-

1 R. Jeffrey Smith, "China Nuclear Deal With Iran Is Feared," *The Washington Post*, April 17, 1995, p. A1.

2 *Financial Times*, May 29, 1995, p. 1.

sion to allow Republic of China President Lee Teng-hui to visit America, Beijing has suspended previously scheduled U.S.-China meetings that were to have focused on implementation of the MTCR.

Given that the MTCR regime came into being without China's participation, Beijing tends to view restraint on missile sales less as an international obligation than as a favor to be reciprocated. When the U.S. acts in ways that displease China, Beijing looks for ways to indicate its displeasure. The sale of missiles and missile technology is one way to do this.

✓ **Taiwan: Growing ties across the Straits.**

The United States established diplomatic relations with the People's Republic of China in 1979, at the same time downgrading relations with the Republic of China on Taiwan to their present "unofficial" status. In statements issued with the PRC, the U.S. has acknowledged that there is "but one China and that Taiwan is a part of China" while never explicitly recognizing the PRC's claim over Taiwan.³

China has sharply criticized the Clinton Administration's May 22, 1995, decision to allow ROC President Lee Teng-hui to pay a private visit to his alma mater, Cornell University. Beijing asserts that President Lee's trip amounts to American interference in China's domestic affairs. China sees this decision as encouraging an independent Taiwan, thus impeding the process of peaceful reunification. It also views the U.S. move as part of a deliberate American strategy of keeping China weak and divided. In response, Beijing cut short a top official's visit, canceled the scheduled visit of Defense Minister Chi Haotian to the U.S., and threatened to exact some sort of "price" for this action unless the Lee visit permission is rescinded.⁴

At the same time, both China and Taiwan are moving ahead with preparations for a July 20 meeting in Beijing between the PRC's Association for Relations Across the Taiwan Straits and Taiwan's Straits Exchange Foundation. The talks will focus on illegal immigration, repatriation of hijackers, fishing disputes, protection of investments in the PRC, and anti-drug and anti-crime cooperation.

Nevertheless, despite the growing ties across the Taiwan Straits, Beijing continues to reserve the right to use force in the event of a declaration of independence on the part of Taiwan, in the event of large-scale social instability on Taiwan, or should Taiwan acquire a nuclear capability. U.S. relations with the Republic of China on Taiwan are governed by the Taiwan Relations Act of 1979, which both defines the unofficial relationship and safeguards the security of Taiwan.⁵ The position of the U.S. government is that it would view conflict in the Straits of Taiwan as a matter of utmost concern.

✓ **Human rights: Little progress; some backsliding.**

The Chinese continue to interpret the U.S. interest in human rights as a violation of China's sovereignty and as unwarranted interference in its domestic affairs. Despite President Clinton's decision to "de-link" human rights and trade issues during the 1994 MFN debate, the human rights situation in China has not improved. The State Department's Human Rights Report on China found continuation of "widespread and well documented" violations of "internationally accepted norms." *Human Rights Watch/Asia* reports a deterioration in human rights since the Clinton Administration initiated its "comprehensive engagement" policy toward China.⁶

Because China is a non-market economy, its trade relationship with the United States is subject to annual review under the conditions of the Jackson-Vanik Amendment to the 1974 Trade Act.⁷ President Clinton extended MFN last year by an executive order which set forth certain human rights standards. Beijing,

3 United States-People's Republic of China Joint Communiqué [Shanghai Communiqué], February 27, 1972.

4 Ruth Youngblood, "China says Lee visit will cost U.S.," *The Washington Times*, May 26, 1995, p. A17

5 Taiwan Relations Act, April 10, 1979, Public Law 96-8.

6 "China Keeping the Lid on Demands for Change," *Human Rights Watch/Asia*, May 31, 1995.

however, has consistently failed to meet the basic standards contained in the executive order, including those covering international prison inspections, prison labor, and Tibet.

Given China's sensitivities over sovereignty, little progress can be expected in the area of human rights, and some backsliding may occur as the post-Deng succession unfolds.

✓ **Hong Kong after 1997: China's pragmatism will prevail.**

American economic interests in Hong Kong are significant and growing. Hong Kong is the home of the largest American Chamber of Commerce outside of the U.S. and the regional hub for more than 300 American firms. Its business community appears guardedly optimistic over Hong Kong's prospects after reversion to China on July 1, 1997. There is confidence that Beijing will not act against its economic interests. Commercial issues are thought to be inherently manageable.

China, however, views American support for Hong Kong's democratic political development and economic vitality as yet another example of American meddling in China's domestic affairs.

As recently voiced by U.S. Senators Connie Mack (R-FL) and Craig Thomas (R-WY), American concerns are focused on a continuation of the rule of law after reversion. In particular, the establishment of a Court of Final Appeal before reversion is viewed as "a crucial step in maintaining confidence in Hong Kong's ability to operate an effective legal system after the transition...."⁸ Agreement has yet to be reached between the United Kingdom and China on the Court of Final Appeal. Decisions on this issue will affect the fate of democracy and the rule of law after 1997. How the issue is resolved will help frame the larger picture of China as an emerging power.

If agreement with the PRC is not reached before the end of June, Britain will likely move ahead on its own to establish a Court of Final Appeal. This would create a major controversy with China.

✓ **South China Sea: Continuing flashpoint.**

China maintains extensive historical claims to the South China Sea. In 1992, the National People's Congress asserted Chinese sovereignty over the entire South China Sea. In the face of multiple and overlapping territorial claims, with Vietnam, Malaysia, Brunei, and the Philippines all advancing claims in the area, China has advocated positions that emphasize cooperation while putting off multilateral discussions of territorial claims. China insists that all claims be addressed on a bilateral basis.

At the same time, China has not hesitated to use military force to advance and support its claims. It has used force in the South China Sea many times: in 1974, against Vietnam in the Paracels; in 1988, against Vietnam in a disputed area of the Spratly Islands; and earlier this year, to lay claim to an atoll, Mischief Reef, well within the 200-mile exclusive economic zone of the Philippines. This zone was established by the Law of the Sea Treaty, which China has signed but not ratified.⁹

With a 2.9 million-strong military and a defense budget projected to rise 14.6 percent to an estimated \$7.49 billion in 1995, the sheer size of China's military is daunting.¹⁰ And a growing share of this budget is being channeled into developing attack submarines, rapid-reaction forces, and advanced strike aircraft such as the advanced SU-27 fighter—all designed to project military power beyond China's borders.

7 Omnibus Trade Act of 1974.

8 "America's Long-Term Interest in Hong Kong," remarks by Consul General Richard W. Mueller, Foreign Correspondents Club, Hong Kong, May 2, 1995.

9 Nayan Chanda, Rigoberto Tiglao, and John McBeth, "Territorial Imperative," *Far Eastern Economic Review*, February 23, 1995, p. 14.

10 Robert Karniol, "China's defense budget continues to rise....," *Jane's Defence Weekly*, March 18, 1995, p. 17. This represents the official Chinese defense budget. Western experts peg China's budget at between \$10 billion and \$50 billion.

In response to the incident at Mischief Reef, the State Department on May 10 issued a statement making it clear that “Maintaining freedom of navigation is a fundamental interest of the United States.” The statement defined “unhindered navigation by all ships and aircraft in the South China Sea” as “essential to the peace and prosperity of the entire Asia-Pacific region, including the United States.”

The South China Sea will remain a potential flash point in Southeast Asia.

Conclusion

China’s national strategy remains focused on economic modernization as the key to building national power. Thus, prospects for cooperation and progress will be most promising in commercial relations. However, Chinese sensitivities on issues affecting sovereignty will set effective limits on China’s readiness to respond to concerns of the international community. On political issues, human rights in particular, the U.S. should expect a continuing hard line. On strategic issues, the U.S. can expect China to pursue its national interests as defined by Beijing. Given the importance of stability in East Asia to China’s modernization strategy, prospects for cooperation will be greatest on such regional issues as Cambodia, where China backed the peace process, and North Korea, where China is supporting U.S. efforts to end North Korea’s nuclear weapons program.

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