

THE HERITAGE LECTURES

No. 589

China Today: Evil Empire
or Unprecedented Opportunity?

By Barbara Hackman Franklin



Founded in 1973, The Heritage Foundation is a research and educational institute—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

Heritage's staff pursues this mission by performing timely and accurate research addressing key policy issues and effectively marketing these findings to its primary audiences: members of Congress, key congressional staff members, policy makers in the executive branch, the nation's news media, and the academic and policy communities. Heritage's products include publications, articles, lectures, conferences, and meetings.

Governed by an independent Board of Trustees, The Heritage Foundation is a non-partisan, tax exempt institution. Heritage relies on the private financial support of the general public—individuals, foundations, and corporations—for its income, and accepts no government funds and performs no contract work. Heritage is one of the nation's largest public policy research organizations. More than 200,000 contributors make it the most broadly supported in America.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
202/546-4400
<http://www.heritage.org>

China Today: Evil Empire or Unprecedented Opportunity?

The Honorable Barbara Hackman Franklin

A pervasive sense of mistrust colors much of our discussion of renewal of most favored nation (MFN) status for China and of the future of Hong Kong. The coincidence of the handover of Hong Kong on July 1 with the beginning of the congressional debate about MFN renewal means a temptation to multiply that mistrust into exaggerated fears about the intentions of China—short-term and long-term.

I would be the first to say that no one can read the minds of the Chinese. But based on my many visits there and meetings with key players, I feel that efforts to portray China as the next “evil empire” are shortsighted. Further, I believe we have an unprecedented opportunity to foster freedom in a country that will probably soon have the largest economy in the world. That opportunity comes through building our already important and invaluable trade linkages.

But first, let’s look at what has changed and, perhaps more important, what has not changed over the past year.

CHINA TODAY—A LOOK BACK AND A LOOK FORWARD

It was nearly one year ago that I stood here at Heritage to discuss MFN renewal for China and to offer my views on the U.S.–China relationship and its importance. I would like to review what has happened in the intervening year and look toward the future to examine the policies and practices that can move that relationship constructively ahead.

Looking back, what has changed?

A year ago, I said that China was an emerging great power, the most populous country in the world—1.2 billion people—and the fastest-growing large economy in the world, with a gross domestic product (GDP) growth of 10 percent. The World Bank ranks China as the third-largest economy in the world behind the United States and Japan. If China’s economy continues to grow at the same rate or even at a slower rate for the foreseeable future, China is well on the way to becoming the world’s largest economy within the next 15 to 20 years. All of this is still true.

A year ago, I pointed out that China is strategically positioned in Asia, possesses the world’s largest standing army, and holds one of the seven permanent seats on the United Nations Security Council. A year ago, China was a country in transition, a place in which contradictions abound. None of this has changed. While China’s GDP growth rate is phenomenal, GDP per capita was only about \$680 last year. GDP per capita is increasing, but some parts of the country—especially the North and the West—are still very poor. Even in the areas in which

Barbara Hackman Franklin was Secretary of Commerce during the Bush Administration.

She spoke at The Heritage Foundation on May 20, 1997.

ISSN 0272–1155 © 1997 by The Heritage Foundation

economic freedom is paying off, there are disparities. In cities, men on bicycles pulling carts piled high with cabbage pedal alongside colorfully dressed women, some in high heels, apparently headed for the office. Alongside of both are well-suited, well-groomed men in automobiles talking on their cellular phones. Prosperity is expanding beyond the coastal and southern areas. One example is the city of Chongqing in southwestern China, which has been given provincial status along with Shanghai, Beijing, and Tianjin—a move that will accelerate its development and its prosperity.

A year ago, I emphasized that while China today is not a police state like Stalin's Russia, neither is it a democracy; but it is more open than ever before. One major change has occurred, an event some predicted would cause turmoil: the death in February of Deng Xiaoping, China's paramount leader. His legacy is his economic reforms and the profound change they have unleashed in China, plus the return of Hong Kong to China after more than 150 years of British rule. The post-Deng leadership succession had occurred well before his death, and the ruling collective leadership in Beijing, led by President Jiang Zemin, was and is firmly in place. In visiting Beijing the week after Deng's funeral, I was struck by the "business-as-usual" tone.

Another key change in the Beijing ruling elite is coming: the decision about who will replace Li Peng as Premier. Rumors abound, but the process of making this decision is not at all transparent. It is in our interest—and China's—that the next Premier be an extremely able individual capable of showing the "face of reform" to the entire world.

Meanwhile, the reforms initiated by Deng continue apace, and with each passing day seem more and more irreversible. The Beijing ruling elite still cloaks its actions to liberalize the economy in Communist ideology. The more economic freedom takes hold in this "socialist market economy," the greater the gap between ideology and reality. For the Chinese people, it is not the ideology that counts; it is prosperity. Now, having had a taste, they want more of it, and I believe the Beijing leadership must continue to deliver or lose its legitimacy. The central government in Beijing is not all-powerful and may never be again as provinces and locales continue to flex their muscles. Also, village committee elections have been held since the late 1980s, a practice that now extends to an estimated 1 million villages. According to the International Republican Institute, "over 90 percent of the village committees in China have been formed by local elections, although the election process varies widely in terms of fairness and transparency." This practice is a clear step toward democratization.

The Chinese government is still working toward implementation of the Ninth Five Year Plan. Among its goals are strengthening China's agriculture and bringing prosperity to the rural economy, creating infrastructure and building basic industries, promoting science and technology, reforming state enterprises, expanding education, and moving toward a rule of law. I noted on my most recent trip an increasing urgency about the state enterprises and what to do about them. Chinese leaders were emphasizing the need for reform and talking about "redundant" employees, inefficiency, and losses—and, indeed, the state sector last year recorded its worst losses since 1949. It is a real drag on this dynamic economy. The National People's Congress was in session while I was in Beijing, and there was discussion about the 1 million people who already had lost their jobs as some smaller state enterprises closed their doors. That 1 million could be a conservative estimate. There is now talk about the need for a "safety net"; China lacks a social security system.

These and other problem issues are still there: the migration of people from rural areas to the cities in search of prosperity; the need to modernize the financial sector; potential shortages of water and oil; corruption; pollution. The challenges caused by the tremendous pace of change are enormous. How effectively China solves these problems will have a great bearing on her future.

Internationally, China continues its interaction with and outreach to many countries of the region and, indeed, the world. For example, a closer relationship has been established with Russia, a long-time nemesis. For another, China gingerly handled the case of the highly placed North Korean official who defected to the South Korean embassy in Beijing in February. The old-line regime would have sided instinctively with its old ally North Korea. Instead, China handled this situation so as to preserve relationships with both North and South Korea. She now has a substantial trading relationship with the latter.

On balance, there are some nuances of change—in emphasis or through natural progression—but China continues on the same course.

THE U.S.–CHINA RELATIONSHIP TODAY

Turning to the U.S.–China relationship, I said a year ago that this bilateral relationship was arguably the most important in the world. That is, I believe, still true. I also said that it was at its lowest point in years, characterized by a lack of trust on both sides. Part of the problem was the ad hoc decision making and inconsistency that were daily occurrences in the first Clinton Administration. We now have a new Clinton Administration, with different people in charge of China policy. I am hopeful that policymaking will be more rational and consistent, and not be driven simply by domestic political concerns. Indeed, the relationship seems to be marginally better. I can cite Secretary Madeleine Albright's visit to Beijing in February and Vice President Al Gore's visit in March as the highest-ranking U.S. officials to set foot in China since Tiananmen Square. There are plans for state visits, with President Jiang Zemin coming to the United States in the fall and President Bill Clinton visiting China in 1998. All of this is constructive and hopeful, but this progress is taking place against a backdrop of largely negative public opinion and press coverage about China. China-bashing seems to have become the order of the day.

To be sure, there are long-time sticking points in the relationship. Many here continue to be troubled by China's violation of human rights—jailing of dissidents, intolerance of religion, allegations of forced labor—and we still have vivid memories of the forcible crushing of the democracy movement at Tiananmen Square on June 3 and 4, 1989.

We have concerns about nuclear proliferation. Intelligence reports over the past few years apparently have indicated that China has sold missile technology and parts to Pakistan and Iran. Subsequently, China has given assurances that it will observe its obligations under the Treaty on Non-Proliferation of Nuclear Weapons.

We now have a large trading relationship in which there are issues that need to be resolved. The mounting trade deficit—now about \$40 billion—bothers us, and we want China to give us true access to its markets and protect our intellectual property. The ongoing negotiations about China's accession to the World Trade Organization (WTO) have been contentious at times. U.S. companies also have a large amount of contracted investment in China—\$29 billion—and that investment needs the protection of a rule of law.

Negative reactions to China's saber-rattling in the Taiwan Strait prior to Taiwan's election last year linger and cause worry about China's future intentions. So does Hong Kong's reversion to China on July 1.

Now two new factors are in the mix of issues and politics between the two countries. The first is the investigation by the Federal Bureau of Investigation into allegations that Chinese government money has been illegally donated to the Democratic National Committee and to other political campaigns. This has considerably beclouded the atmosphere. The second is the increasing concern in the minds of some who think the Chinese want hegemony. There are those who want to dub China the new "evil empire" and consider her the enemy of the United States.

MOST FAVORED NATION RENEWAL, AGAIN

So here we are once again, facing the annual debate over renewal of MFN status for China. The annual discussion is under the Jackson–Vanik Amendment to the Trade Act of 1974. The amendment denies MFN to any "non-market" economy that restricts free emigration unless the President makes the determination to waive the restrictions. This amendment was aimed at the Soviet Union during the Cold War. Since Tiananmen Square, the annual MFN debate has become the vehicle through which a variety of discontents with China have been raised. MFN is first and foremost a trade issue and should not be loaded up with all our other complaints; nonetheless, that is what is happening again.

The President recently announced his intention to notify Congress by June 3 of his desire to renew MFN status for China; Congress then has 60 days, beginning on July 1, to debate the issue and act if it chooses. This year, right in the midst of the process, is the Hong Kong reversion to China on July 1. Hong Kong and its future under Chinese sovereignty are squarely in the mix of concerns as we approach the annual MFN-for-China ritual.

HONG KONG TODAY—BUT WHAT HAPPENS ON JULY 1?

At this point, because Hong Kong is so much on our minds, let me digress for a few moments and discuss the situation today, the Hong Kong relationship with China and with the United States, and the expectations about July 1.

First, Hong Kong today: The economy and its 6.3 million people are thriving. GDP growth was 4.7 percent last year and is expected to be 5.5 percent this year. GDP per capita was \$25,600 last year—leagues ahead of China's \$680. Hong Kong has an open market and an economy based on trade. For the third straight year, Hong Kong has ranked first in The Heritage Foundation's *Index of Economic Freedom*. Trade and investment are at all-time highs. The real estate market is going through the roof. The stock market is doing well. The Financial Secretary has reported a budget surplus of about \$2 billion (in U.S. dollars) for 1996–1997 and has projected a nearly \$4 billion surplus for the next year. Fiscal and foreign exchange reserves are hefty. Hong Kong has excellent infrastructure, especially in telecommunications; facility in the English language; a rule of law; and a competent and honest civil service. All in all, Hong Kong is doing well. While I was there recently, the Financial Secretary made headlines by reducing the tax on wine from 90 percent to 60 percent, no doubt to help along the upcoming celebrations surrounding the handover.

Originally part of China, Hong Kong was ceded to Great Britain in 1842 by the Treaty of Nanking at the end of the Opium War, and was governed as a British colony from that time forward. The Chinese, however, continued to feel that this was an “unequal treaty” and that Hong Kong should again one day be a part of China.

The negotiations with Great Britain that culminated in the reversion began in 1982 and were triggered by the fact that the leases of land in the New Territories—under a deal between China and Great Britain in 1898—were to expire in 1997. Businesspeople had begun to get anxious about the future, and this caused Prime Minister Margaret Thatcher and Chinese leader Deng Xiaoping to hold talks. By now, Hong Kong and the New Territories had become as one, and it became abundantly clear that China would settle only for the return of Hong Kong. It was also clear that China had leverage in the negotiation because of the expiring leases in the New Territories. So Britain decided that a reversion with terms allowing Hong Kong to maintain its capitalistic system and way of life was a better option than reversion with no such conditions.

The result was the Joint Declaration, signed in 1984, embodying Deng’s “one country, two systems” philosophy. By its terms, China would resume sovereignty over Hong Kong beginning on July 1, 1997. Hong Kong would be a Special Administrative Region (HKSAR) of the People’s Republic of China and would “enjoy a high degree of autonomy except in foreign and defense affairs.” The Declaration specifically indicated that the HKSAR will be vested with executive, legislative, and independent judicial power including final adjudication; that its government would be composed of local inhabitants; that the current social and economic system in Hong Kong would remain unchanged, and so would the lifestyle; that rights and freedoms would be protected by law; that the HKSAR would retain the status of a free port, separate customs territory, and international financial center; that the HKSAR would have independent finances and its own currency, and may establish mutually beneficial economic relations with other countries; that no taxes would be paid to Beijing; that public order would be the responsibility of the HKSAR; and that these policies would remain unchanged for 50 years.

This was an unusually detailed set of stipulations, the essence of which has been embodied in the Basic Law of Hong Kong.

When Christopher Patten became Governor of Hong Kong in 1992, he embarked upon a series of reforms to create a more democratic political system. China objected every step of the way to Patten’s reforms—there were 17 rounds of unsuccessful talks—saying the reforms contravened the Basic Law. The Hong Kong government went ahead with the reforms anyway, and in retaliation, Beijing declared that the Legislative Council, newly elected in 1995, would not serve out its four-year term, but would be replaced by an appointed body that would serve until new Legislative Council elections could be held in 1998.

Then, as the reversion neared, the National People’s Congress in Beijing reviewed Hong Kong’s entire body of law. Earlier, the People’s Congress had passed the Basic Law. Now it singled out those laws thought to be breaches of the Basic Law and recommended that they be brought into conformance. What we have been observing from afar is the discussion about the amending of three laws: the Public Order and Societies Ordinances and the Bill of Rights. The changes recommended would pull back some of the rights of citizens; demonstrations now would need police permission, and political parties could not accept foreign donations. The Democratic Party and other activists in Hong Kong have objected loudly.

Naturally, we Americans do not like anything that retreats from any modicum of freedom, free expression, or free assembly, and we are concerned about these impending changes. Let us not lose sight, however, of the fact that the majority of Hong Kong's body of law will apply after July 1 and will mean the continuation of the rule of law in Hong Kong.

The Joint Declaration is an international agreement registered with the United Nations, and China has strong incentive to honor it. There are two main reasons:

- Economically, China has a great stake in Hong Kong. China is the largest investor in Hong Kong, with at least \$25 billion (U.S.) invested. The so-called red chips—the 30 or 40 mainland Chinese companies or state-owned enterprises—that operate in Hong Kong and list their shares on the Hong Kong stock exchange have done very well and have delivered splendid returns to their shareholders. In some cases, the shareholders are the Chinese government. Conversely, Hong Kong is the largest investor in China. So why should China want to kill this “golden goose” when there is so much economic interdependence?
- China's leaders know full well that the ability to make “one country, two systems” work will be watched closely by the rest of the world, as well as by the people of Taiwan. Reuniting with Taiwan—which Beijing very much wants—will be much more difficult if the Hong Kong experiment fails.

The United States, too, has a great stake in Hong Kong. U.S. companies have \$14 billion invested there; our two-way merchandise trade is \$24 billion, making Hong Kong our 13th-largest trading partner. Eleven hundred U.S. companies operate there. Thirty-seven thousand Americans live there; they are the largest expatriate population except for Filipinos. The U.S. government has a consulate there. The U.S. Hong Kong Policy Act, passed in 1992, makes clear the legal authority for the United States to treat Hong Kong as a non-sovereign entity after the reversion and requires the State Department to report to the Congress on conditions of interest to the United States. In April, President Clinton met with Martin Lee of the Hong Kong Democratic Party and promised that the “U.S. government will defend Hong Kong's freedoms,” and the U.S. Congress is watching the Hong Kong situation very closely.

THE EXPECTATION DISCONNECT

The key questions are: What will happen after midnight on June 30? Will the Chinese government honor the Joint Declaration?

There are many in the United States who fear that something ominous will occur, that an iron curtain will descend over Hong Kong. This has been the predominant tone of our press coverage of the event, largely because of the dark motives attributed to the Communist Chinese. We expect the worst.

But most of those who live in Hong Kong have a different expectation, and here is the disconnect. They are optimistic and upbeat. When I was there in March, the mood was celebratory. There may be some quiet concerns about subtle changes; but if there are, people are not letting on and are practicing “self-censorship.” On the whole, the people seem to be betting on the future of Hong Kong, and that means they are also betting on the future of China.

I might add that American companies are not leaving. The Hong Kong Am Cham says its membership has remained constant for the past several years. Companies are viewing the turn-over as another way to gain a foothold in China.

Most likely, the reversion will be a historic and unique celebration. No iron curtain will descend over Hong Kong at midnight on June 30. Hong Kong will now have a Chief Executive, Tung Chee-hwa—a Hong Kong Chinese businessman—rather than a British Governor. The provisional legislature, chosen by a 400-person selection committee rather than by an election, takes office and assists in governance until elections are held. Mr. Tung has promised those as soon as possible, within the year. The British garrison will be replaced by the People's Liberation Army. Other than these things, I think the fundamental character of Hong Kong will remain the same.

POSSIBLE DEVELOPMENTS

Over time, however, there may be other changes. The key is whether they will be drastic or incremental, as I expect. After all, the Chinese government has used an incremental approach to reform its own economy; and that is, I believe, the approach that would be used in making any changes in Hong Kong. I further believe that if any changes are made and found to be unworkable, too controversial, or to constrain the "golden goose," the Chinese will desist. One such action occurred recently, when Mr. Tung backed off a bit—after consulting with the people of Hong Kong—on the proposed amendments to the Public Order and Societies Ordinances.

Nevertheless, there are possible developments that bear watching. They include any interference in the financial affairs of Hong Kong, changes in the legal or court system, corruption creeping into the government, interference with the free flow of financial information or free press, and a shadow power structure lodged in the Communist Party apparatus that is at odds with the formal governance structure. Such changes, if they occur—and I hope they do not—would not show up immediately. They would be revealed more slowly over the coming months and years. So we must keep a concerned eye on Hong Kong for the longer term, going far beyond July 1, 1997.

Finally, I must confess to having one great concern about the events surrounding June 30. That is the number of journalists—more than 6,000—expected in Hong Kong. Journalists by definition are looking for news. Quite possibly they could focus on some minor incident, not important or typical, but that vindicates our worst fears, and this would be broadcast around the world. A worsening of the U.S.–China relationship would be the likely result.

MFN RENEWAL FOR CHINA AND WHAT IT MEANS FOR HONG KONG

Virtually everyone with whom I have talked in Hong Kong is for renewal without conditions and without delay. That includes outgoing Governor Christopher Patten, incoming Chief Executive Tung Chee-hwa, Director of the Civil Service Anson Chan, Democratic Party activist Martin Lee, and various Hong Kong legislators, academics, and businesspeople. They all say the same thing: that what adversely affects China—as denying, delaying, or conditioning MFN would—adversely affects Hong Kong. And they go a step farther: Hong Kong would be harmed first and more profoundly because Hong Kong's economy is so very dependent on trade. Specifically, the Hong Kong government estimates that denial of China's MFN status would mean a loss of \$3 billion or \$4 billion in income and 61,000 to 86,000 jobs, and that GDP growth would be cut in half. They call this potential loss "cruel double jeopardy," noting that they take no comfort in the proposition that if China reduced their freedoms, the United States would take away their jobs.

In addition, there are several other reasons why Congress should concur in renewal of MFN for China. Using MFN renewal to send messages to China on unrelated issues makes no sense and is likely to be counterproductive.

First, denying, delaying, or conditioning MFN has negative economic consequences for the United States. At least 170,000 U.S. manufacturing jobs were directly dependent on U.S. exports to China last year, and thousands of others, in such areas as transportation and finance, are indirectly linked.

Second, such action would send a confusing message to the Asia-Pacific region, where the U.S. presence is considered critical to ensuring stability. What the nations of the region want is a “stable” relationship between the United States and China, and when this relationship seems otherwise, they become alarmed. This could be disruptive to trade and to other U.S. activity in the region.

Third, anything other than unconditional MFN renewal will have a negative effect on China’s reform process and on the accession to the WTO. It is in our interest and the world’s that China’s reforms continue. As the economy becomes increasingly free of the constraints of a centrally planned and run system, the entire society becomes more open. That openness over time leads to more openness in the political system, and in time to more political freedom. Further, some of the reforms are crucial to entry into the WTO. For example, the state-owned enterprises must be reformed so they do not contravene the WTO subsidies code. It is also in our interest to bring China into the WTO on acceptable terms that will give us the opportunity to bring multilateral pressure to bear if China does not play by the rules.

Finally, denying or conditioning MFN to send China a message about our grievances in the areas of human rights, nuclear proliferation, potential aggressiveness against Taiwan, or anything else probably will not work, especially if we do this unilaterally—and there are no signs that any other nations would join us in this effort. This is not to suggest that we sweep our other concerns under the rug. It is to suggest that we use other means to pursue them rather than hanging them on MFN.

I said last year, and reiterate again, that it is time to stop this annual ritual and make MFN for China permanent. After all, we have permanent MFN with most other countries, including rogue states like Libya and Iraq.

THE U.S.–CHINA RELATIONSHIP—WHAT DOES THE FUTURE HOLD?

I continue to believe we need a strategic framework for our relationship with China. This does not mean being “soft” on China. It does not mean giving up our principles—the value of human life, the pursuit of liberty, economic freedom. What it does mean is that our government must define a clear set of objectives and expectations for our relationship and articulate this clearly to the Chinese. In fairness, they must have the opportunity to do the same.

It means identifying every strand of the relationship—human rights concerns, trade, WTO accession, nuclear proliferation, Taiwan, Hong Kong, China’s reforms, the environment, the intentions of the military, possible illegal fundraising, and whatever else there may be. It means having dialogue at the highest levels, managing each strand of the relationship, and taking the action designed to get results, not just to win political points here at home. It also means

managing the relationship as a whole; and, above all, it means consistency in policy and in implementation—something that has been missing in recent years.

It is probably too early to assess whether the new Clinton team will pursue the relationship through a strategic framework. I am hopeful, however, that this is what Secretary Albright means when she talks about a “multi-faceted” relationship.

All the above is predicated on “engagement” as the proper U.S. policy. I have been thinking long and hard about this as engagement has come under attack as a bad policy that has been tried and doesn’t work.

What other policy options are there? Confrontation is one. Or perhaps a hybrid, somewhere between engagement and confrontation. That would surely be confusing to us and to the Chinese, and I reject it.

What is left is the confrontation option. Some are advocating this. They want to make China into the next “evil empire,” thereby turning her into our enemy as the Soviet Union was during the Cold War. There are several major differences between the Soviet Union of times past and today’s China:

- **First**, the Soviet Union was engaged in a quest for world domination. China is not. In fact, I think China is so preoccupied with trying to bring prosperity to the people that any thought of conquest would be exceedingly impractical. Besides, analysts tell us China’s military capabilities today are obsolete and rather ineffective. It is true, however, that China wants to be treated as an emerging power and that its leadership has a “hot button” about sovereignty, particularly as it relates to Taiwan. The United States is already on record with China: No force is to be used against Taiwan. But Beijing’s desires to bring Taiwan back to China are not to be equated with a desire for world domination.
- **Second**, the Soviet Union was arthritic, rotting from within, and in economic trouble when President Ronald Reagan forcefully stood up for freedom. The same cannot be said of China today. China is re-creating itself from within, and its size, growth, and dynamism have made it an ascendant power, not a declining one.
- **Third**, during the Cold War many other nations joined with us in confronting the Soviet Union. Were we to take a confrontation course with China, it is doubtful that any other countries would join us. The countries of the world are now preoccupied with economic development, trade, and prosperity. A unilateral approach based on a security concern with which hardly any other country agrees would simply not be successful and, in fact, would make the United States look rather foolish.

For all of these reasons, the confrontation option should be rejected.

Engagement is the proper policy. We should remember that this has been our policy since President Richard Nixon went to China in 1972. What we should be carefully looking at is not the policy, but how it is currently being implemented, and here is where the Clinton Administration has failed us in the first term. But let us resist throwing out the baby with the bath water.

Of course, we must always remember that there are two sides to every relationship. China can be very difficult. There are genuine differences in the way we view some issues. The Chinese leaders can be obstinate, prideful, arrogant, and paranoid. China is caught up in great

change, and the Chinese will undoubtedly do things we don't like or that don't make sense to us. U.S. policymakers must be objective and tough-minded and take the appropriate actions at the proper time. But we should keep the broader objective in mind: to encourage China's reforms, openness, and entry into the international community as a responsible player.

It is not inevitable that China should become our enemy. That is possible, of course. A year ago, I said that if this occurs—and I hope it does not—it should not be our policies or lack thereof that contribute to such an outcome. This comment seems even more relevant today. Calling China the next “evil empire” does not necessarily make it so; even worse, we begin to create a self-fulfilling prophecy. Why do it? Not only is it senseless, but it is not in our interest at home or in other parts of the world.

We cannot and should not turn our backs on the opportunity to help free markets and liberty along in China. I believe U.S. policy and its skillful and consistent implementation can make a difference. Doing this is one of the greatest challenges of the post-Cold War era. It is not as clear-cut as confrontation is. There are more ambiguities, more crosscurrents, more confusion, and that puts a premium on diplomatic skill, vision, and good judgment. But the United States has always risen to global challenges. We must do so again in managing our relationship with China.

HERITAGE STUDIES ON LINE

Heritage Foundation studies are available on the Internet. The Heritage Foundation's home page address on the World Wide Web is www.heritage.org. Bookmark it and visit it daily for new information.